PD-AAI-629

632-0089

UNCLASSIFIED
CLASSIFICATION

PROJECT EVALUATION SUMMARY (PES) — PART I

Report Symbol U-447

1. PROJECT TITLE	2. PROJECT NUMBER	3. MISSION/AID/W OFFICE
Low Cost Building Materials Production; Operational Program Grant to the Cooper-tive Housing Foundation (formerly Foundation for Cooperative Housing)	632-0089	USAID/Lesotho
	4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) 632-82-1	
	☒ REGULAR EVALUATION ☐ SPECIAL EVALUATION	

5. KEY PROJECT IMPLEMENTATION DATES			6. ESTIMATED PROJECT FUNDING	7. PERIOD COVERED BY EVALUATION
A. First PRO-AG or Equivalent FY 77	B. Final Obligation Expected FY 80	C. Final Input Delivery FY 82	A. Total $ 1,425,000	From (month/yr.) November 1979
			B. U.S. $ 540,000	To (month/yr.) November 1981
				Date of Evaluation Review 20 November 1981

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
This is the end-of-project evaluation which was conducted prior to the departure of the CHF advisor who leaves Lesotho in early December, 1981. No decision or issues are outstanding. Mission recommends attention be paid to the Unplanned Effects and Lessons Learned sections which identify attitudinal changes as a result of the project and the fundamental and often identified Project requirements for counterpart staff, business acumen, and a clear definition of project relationships with all involved parties.		

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

- ☐ Project Paper
- ☐ Financial Plan
- ☐ Logical Framework
- ☐ Project Agreement
- ☐ Implementation Plan e.g., CPI Network
- ☐ PIO/T
- ☐ PIO/C
- ☐ PIO/P
- ☐ Other (Specify) ____
- ☐ Other (Specify) ____

10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT

- A. ☐ Continue Project Without Change
- B. ☐ Change Project Design and/or
  ☐ Change Implementation Plan
- C. ☐ Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)

Evaluator: Dr. Neal P. Cohen, Regional Economist, USAID/Swaziland
Project Monitor: Mr. Stephen T. Norton, USAID/Lesotho
Project Advisor: Dr. Jack Down, CHF
Host Country Official: Mr. Gabriel A. Mphakalasi, Director, LEHCO-OP

12. Mission/AID/W Office Director Approval

Signature: F Correll

Typed Name: Frank D. Correl

Date: 11-30-81

AID 1330-15 (3-78)

EVALUATION OF LOW COST BUILDING MATERIALS PRODUCTION PROJECT

632-0089

November 1981

13. SUMMARY

The Low Cost Building Materials Production Project was an outgrowth of a pilot program, begun in 1975, in low cost housing. That project was funded by the U.N. Capital Development Fund (CDF) with technical assistance funding coming from the U.N.D.P. The technical work was done by the International Cooperative Housing Development Association (ICHDA) of which the Foundation for Cooperative Housing (FCH) is a founding organization. It initially set up a Technical Services Organization (TSO) out of which the Lower Income Housing Company (Lehco-op) was formed. It had representatives of the National Development Council and the Ministries of Commerce and Industry, Education, Cooperatives and Planning on its board. It helped to establish the Mohalalitoe Cooperative Housing Society where the first houses were constructed. Lehco-op was to provide technical help in site selection, planning, land acquisition, design, training and also a revolving mortgage fund. Lehco-op would supply the building materials which the lower income people would use. The members of the coop constructed the homes or used hired labor. Since Lesotho exports over 200,000 laborers to South Africa and imports nearly all its building materials, it was felt that the original project should be altered so that Lehco-op would produce building materials made in Lesotho for use by the project families. Production Systems (PS) was thus set up in April 1976 to do this, taking CDF construction materials money to purchase machinery, raw materials and a building. The machinery and building costs were sufficiently high that PS had problems, almost from the first day, with an insufficient stock of raw materials. There were few times during PS's history that it was not operating under a financial crunch. The CDF did not feel that it was adequately consulted about this major change in the project. However, the local UNDP Representative supported the move. Little thought was given to the nature of the relationship of PS to Lehco-op; what decisions it could make on its own and what decisions would have to be deferred to the management of Lehco-op. It was generally assumed that any PS profits would be used by Lehco-op to meet Lehco-op's running expenses. Since PS was a subsidiary of Lehco-op, there was also a feeling that it was unnecessary for Lehco-op to reimburse PS for the materials PS supplied. Meeting PS's payroll and maintenance costs became difficult. PS had to request overdraft facilities at Lesotho Bank and promptly ran up an indebtedness beyond its capacity to service, let alone repay.

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Since the cost of establishing/production unit was beyond the capabilities of the original CDF grant, the Government of Lesotho (GOL) and Lehco-op approached USAID to do a sector shelter study. This was funded out of AID/Washington money and led to a feasibility study on improving PS. FCH completed the feasibility study and provided an OPG proposal in June 1977. The centrally funded $325,000 OPG was approved in September 1977. The FCH advisor arrived in Lesotho February 1978. Almost from the beginning there were crises; mainly involving the relationship of PS and Lehco-op, inadequate cash flow and the lack of

a counterpart. This last point has reduced the possibility of institutionalizing the assistance which the FCH advisors and consultants have been able to provide. This also led to a project amendment which was approved in September 1979 to continue the Project for an additional year, purchase additional machinery and provide capital to purchase raw materials in bulk, thus lowering costs.

An evaluation was done in early November 1979. The major recommendations concerned the need for a counterpart, defining the relationship of PS and Lehco-op, and determination of the mandate for PS.

One week after the evaluation and before the recommendations could be acted upon, the GOL requested the termination of the FCH advisor for refusal to recognize Lehco-op's authority in internal policy matters, making PS financially separate from Lehco-op, planning to establish a profit sharing plan for employees (Lehco-op is a non-profit organization) and dealing with donors without going through proper channels. It was felt that some of the evaluation's recommendations were biased due to the FCH advisor's statements to the evaluators.

The replacement FCH advisor arrived in March 1980 and the management trainee was elevated to the PS Manager in June 1980. He resigned in May 1981 and the FCH advisor became Acting Manager. When he went on leave, the UN advisor (previously funded as a British IVS) became Acting Manager. The FCH advisor leaves in December 1981, and the UN advisor must relinquish his function as Acting Manager by January 1982 and return to his position in the joinery. No manager has been appointed and* no agreement on a manual of administrative policy (MAP) has been reached. It is impossible for the FCH advisor to train any new manager in the time remaining. He can only hope that the individuals he trained will be able to train the new manager, if the new manager comes from outside PS.

14. EVALUATION METHODOLOGY

This end-of-project evaluation is to clarify and confirm the design of the Project, to measure progress against the Logical Framework, to verify project hypotheses and to recommend measures which will improve the design and implementation of comparable projects. The evaluation methodology is based on a review of all project-related files plus discussions with the staff of PS, Lehco-op, Lesotho Government officials, managers of competitive firms as well as private businessmen and bankers. An initial briefing was given by Mr. Steve Norton, USAID/Lesotho Project Monitor. This was an informational briefing and not designed to indicate his own perceptions of the Project.

All of the statistical material used comes from PS, Lehco-op reports, CDF evaluations and project design papers of the CDF, World Bank and CIDA.

* A manual of administrative policy (MAP) was formally accepted by Lehco-op and PS on 27 November 1981.

The evaluation was carried out exclusively by Dr. Neal P. Cohen, USAID Regional Economist, Swaziland.

15. EXTERNAL FACTORS

Lehco-op's status and goals have changed from being a TSO to encourage and help to establish housing cooperatives to placing an emphasis on dealing with donor agencies interested in providing low cost housing. Thus, it has been at various times an organization somewhere between a cooperative, a state-owned company, a parastatal and a non-profit making organization with a profit making section. It has had various 'masters' within government but has never been assured regular government budget support. It is in the process of being converted to a statutory corporation given the mandate to implement self help housing projects. It will shift from having its principal liaison with the Ministry of Commerce and Industry to the Ministry of Interior.

In the original documents setting up PS, it was understood that PS's profits would be used to support Lehco-op and gradually reduce the need for government budgetary support. However, at no time was a MAP generally agreed to. This has led to many misunderstandings as to the decision making powers especially as they relate to personnel and use of funds. There are 'understandings.' But, given past difficulties, the present understandings are clearly insufficient. They rest on the personalities and working styles of those in decision making positions. They are not institutionalized. They work when the principal actors work well together. As these actors leave, new people might find the guideposts insufficiently clear. One result of this is a lack of a clear cut and understandable mandate for PS. It is a business enterprise, a way to provide assured supplies to Lehco-op or a way to reduce costs to low-income families, whether affiliated with a Lehco-op housing scheme or not. PS produces concrete items for Lehco-op first and sells the excess, if any, to contractors and low-income families who are not in project areas. The joinery was envisioned to supply wooden doors, trusses and window frames for the houses. It was not able to compete with steel window frames or doors made elsewhere and trusses were not needed for the housing projects. For cash flow reasons and the ease of tapping the market, the joinery got heavily involved in making high quality items for relatively well-off individuals and government organizations. While outside the goals of Lehco-op and inappropriate, this was necessary to reduce cash flow difficulties. The joinery has never established a standard line of low-cost furniture which could be used by Lehco-op assisted families. There has been discussion almost from the start about the need to do this. The need to manage the organization and the press of problems has never permitted this line to be established. It is still hoped that 'next year' it will be done.

Always mentioned as a problem of operating in Lesotho is a lack of skilled, semi-skilled and managerial personnel. These 'truisms' are mentioned by everyone and thus are believed because they are oft repeated. Later in this evaluation it is discussed further.

While the GOL has always maintained an interest in low cost housing, budgetary difficulties have seldom permitted it to provide the budgetary support necessary. Thus, the activities of Lehco-op have depended on foreign donor support. Actions were geared to what donor agencies would be willing to fund, with project design in the hands of foreigners.

16. INPUTS

PS's initial inputs came from the CDF grant. While USAID funds directly helped PS, it was also assisted by the CIDA Katlehong and the World Bank/CIDA Khubetsoana projects. These were able to pay for blocks before delivery, thus alleviating some financial crises. A new CDF project to assist PS expansion has been tentatively approved but a sister project to assist Lehco-op and housing is still being discussed. Help has also come from the British in the form of a millwright for the joinery.

Due to waivers permitting purchase of capital equipment from South Africa, it was possible to get the needed equipment promptly.

The Project called for consultants in training, marketing, product development, improved publicity and production management. FCH was able to provide the consultants on a timely basis. However, as with many development projects, there was inadequate attention to the financial side of production caused by an overemphasis on being able to produce. Running a business is more than establishing financial controls or issuing profit and loss statements. Establishing an effective business in a low-income country takes more than the provision of technical expertise. Technical experts will tend to emphasize the production of quality merchandise. Establishing a business also takes more than providing the capital. Possibly the most important element, without which a business is almost certain to fail, is the provision of business acumen. The ability to know what type of material is needed for decision making and then getting the information. The ability to know how to properly cost an item. The early profit and loss statements were unusually fashioned, with errors, and without providing any more useful information for decision making than the single number at the bottom. Depreciation maintenance and bad debts accounts were either not listed or when listed the funds were not set aside. Thus, the purpose of establishing such an item was lost. Costing of production took into consideration competitive pricing in the slab operation but not in the joinery. A clogged joinery order book is symptomatic of a good product priced too low. Were the joinery producing for low-income families, an equity argument could override the preceding argument. Early on, the Project ought to have had a better costing of output and this process ought to have been routinized to allow simple periodic updating. Similarly, it makes little sense when there are frequent financial crises not to ask ALL people that order items from the joinery or the slab to make a downpayment at the time of order. At times, PS had to borrow the money to purchase the raw materials. This cost did not enter into the price the final individuals had to pay. Circumstances might force PS to permit some people not to make a deposit. That ought to be the exception and not the general rule.

While the evaluator finds that there was on-the-job training, it was felt by many that there could have and should have been more. But, the lack of a counterpart manager and the necessity of dealing constantly with cash flow and procurement difficulties, did not permit sufficient time for training.

17. OUTPUTS

The three major easily quantified output targets were an increase in employment to 90 people, output on the slab of $65,000 and from the joinery of $80,000. This was an increase of 35 employees, an increase in slab output of 35% and an increase in joinery output of 35%. The latter two were unusually low targets as evidenced by the forecast made for first-year output by the FCH advisor within four months of arrival. He forecasted total output of $200,000. Due to sloppy accounting and incomplete reports, it is difficult to determine actual output but, in 1979, the Project exceeded the forecasted target and topped the proposals end of project targets by 50%. Not only was the targeted employment figure never reached but it took over two years until employment even reached the same level it was when FCH got involved. One of the first actions taken by the advisor was to improve efficiency in the joinery by letting 14 people go. This continued the downward trend in employment which had begun prior to the project proposal. Today, there are only about 10 more people than when FCH began or nearly 30 percent short of the target. However, current expansions in the joinery will allow more people to be hired next year. It is doubtful whether the expansion will justify more than 6 new employees. The employment target was unrealistic. (The target was actually even higher since it included 21 people who would be employed making 5,000 desks for the Ministry of Education. PS did not feel that it could do this work at a price which the Ministry was willing to pay; thus it was dropped). If it was as obvious as the initial FCH advisor indicated, that the joinery was massively overstaffed, then a major portion of the justification of the Project is lost. Without the increase in employment or the MOE chairs, the original project proposal was not a cost effective way to use $325,000. With a ten-year benefit stream, the internal rate of return (IRR) on the original project proposal was 7.3%; excluding the employment benefits, the IRR is -2.3%.

Another output target was the establishment of a standard line. As discussed elsewhere, this has never been achieved. The original proposal also included as an output the establishment of a profit sharing plan for the employees. Since the attempt to do this was one of the items leading to the dismissal of the first FCH advisor, no additional work has taken place to achieve it nor will any more discussions take place.

18. PURPOSE

The logical framework gives as the project purpose:

1. strengthen cooperative housing management through support of Lehco-op and its Production Systems Division;

2. increase and improve local production and distribution of building materials; and

3. support large scale shelter improvement program.

The indicators to verify purpose achievement are:

Materials used in self-help and low-cost housing construction and improvement programs supplied primarily from local production.

Any expansion of output by PS which does not result in an equal and opposite reduction elsewhere in Lesotho achieves the purpose. In a growing economy with an expanding construction sector, the purpose as stated was trivial. It was achieved within months of project start.

At the same time, the increase in construction has been great enough so that imports from South Africa of building materials has also grown, albeit at a slower rate than the production of building materials in Lesotho. (Partly because the smaller initial amount of Lesotho-produced building materials meant that a small absolute increase was a large percentage increase).

The concrete slab is sufficiently viable to have no significant problems with the end of the USAID project. It is already operating with a minimum of advisor attention. Its only problem will be the continuing one of being able to stockpile sufficient crushed rock, cement and sand. Supplies have always been erratic. The joinery can maintain current output without the FCH advisor and hopefully the people he trained can take over and run the shop. If his replacement must start from scratch without any assistance from the FCH advisor, then future viability depends on how well the people the advisor trained can train the new manager. This places an ability-to-teach burden on those that have just learned management skills.

19. GOAL

The project goals were:

1. to reduce the building materials cost and reliance on imported materials;

2. to facilitate improvements of housing for poorest majority; and

3. to increase employment and increase building materials and construction industry.

The indicators were to be:

1. reduction of importation of building materials;

2. less expensive and better quality materials available for use by poorest majority; and

3. 90 new jobs created in the building and construction industry.

As discussed earlier, the growth in construction has meant that, while there has been tremendous increases in locally produced building materials, this was insufficient to meet the additional demand. Thus, there has been an increase in the importation of building materials. However, the proportion of total building materials used in Lesotho which are locally produced has increased. Thus, while the first indicator was not achieved, had it been phrased properly for a growing economy, it was achieved.

The second indicator was both achieved and not achieved. It was achieved in that the concrete slab operation always priced its output below that of its competitors. Thus, the people in Lehco-op assisted housing did receive better quality blocks and cement bricks at a lower price. Whenever PS blocks were not available to the general market, competitor prices rose substantially. Thus, it did have an impact on reducing prices for a broader range of people than the market it directly served. Since the joinery found it could not compete with the production of lower-cost window frames and doors made elsewhere, it did not get involved in the market. Since it did not produce a standard or low-cost line, it also had no impact on the provision of either building materials or furniture for the low income market. PS still feels it can lower the cost to lower income families of furniture with its planned standard line. Extensive market surveys of needs, demands and rationale for where items are purchased is still to be done. As with many such activities, there is a technician's belief that the market is already known and, thus, a survey is pretty much superfluous. Also, since the PS produced output will be of much higher quality, that people will purchase from PS rather than competitors. It is the fear of the evaluator that, with accurate costing that looks at competitor quality, service, credit and 'status', PS will be unable to meet the competition. PS pride in quality work may well prohibit it from beating the competition.

Lehco-op does not always serve the poorest majority. Its houses tend to be for below median-income families and it has been found that most of those willing to make the commitment to periodic mortgage payments are those with reasonably secure jobs. This has usually been government employees and blue collar people. Some have rented out their houses or portions thereof and possibly this has benefited the poor. Similarly, by providing additional housing, some housing becomes free which can go to the poorest majority. However, the Project does not directly help them and the assumptions necessary to show any benefit for the poorest majority make us suspect of any benefit received by the poor majority.

Lehco-op and the original project proposal talked about building 1700 new homes. To date, less than half this number have been created, including those currently under construction at the World Bank/CIDA Khubetsoana Project. While detailed brick/block output figures are not reported, it appears from discussions that the total brick/block output was under one million or, at 850 blocks per lower income house, that around 1000 families could have been housed. Many blocks did not go to lower income people. While the purpose was not achieved, at least many families were able to receive high quality cement products at a lower cost and their housing was improved.

The employment goal has already been discussed.

20. BENEFICIARIES

The first group to benefit from PS are those who got jobs with it who otherwise would have been unemployed or underemployed. In general, the skilled craftsmen could have found jobs elsewhere but the increase in demand for their services caused by the creation and expansion of PS has probably increased the salaries of skilled carpentry workers. Thus, this type of worker, working elsewhere, achieved some benefits from the Project. The PS workers also benefited by an upgrading of skills received through PS training. Supervisory and financial personnel also benefited through direct and frequent contact with the advisors which created new skills for them. Some people who left PS and used the skills learnt at PS also benefited by being able to get a job they would not otherwise have been able to get.

The second major group to benefit are those people who got concrete materials at a lower price than they would otherwise have gotten. PS's blocks have usually been at least 8c under those of competitors. Also, the individuals who purchased items from the joinery received benefits, especially the 'free' services of the foreign advisors, 'free' rent of PS premises, and lowered costs due to donor-supplied tools and the ability to purchase in bulk (USAID Grant Amendment). Thus, while this group benefited, they tended to be middle and upper income individuals. There was no reason why they ought to have been subsidized and, thus, the benefits that they received will not be taken into consideration in the analysis.

A third Lesotho group to benefit are those local contractors who supplied sand, crushed stone, transportation and other services to PS. RSA contractors also benefited but since that was not an element of project goals it is not considered in the analysis.

The last group to benefit were those with building skills who benefited from the additional construction work.

Quantifying these benefits is exceptionally subjective and reasonable people can differ without anyone being wrong. In order to compute an IRR, we need some quantification of benefits and costs. Since we are evaluating the Project from a USAID standpoint, the costs will be the total expenditures by USAID but not including the time spent in supervising the Project by USAID/Lesotho personnel. In a callous way, from the standpoint of the Government of Lesotho, the Project is automatically a success since it brought in donor money which would not have otherwise come to Lesotho. (It was centrally funded and, thus, not in competition with other mission funds.)

Critical benefit assumptions are what would have happened to PS had the OPG not existed? Would it have folded for lack of capital? Would another donor have funded it? Would it have been forced to swim even sooner? Secondly, for how long after the USAID contribution is over can we reasonably attribute PS generated benefits to the Project? Third, how many of the PS employees would have found jobs elsewhere or what proportion of the wage bill is a net contribution to the Lesotho economy as opposed to a rearrangement in the beneficiaries? Fourth, were there no PS, could the private sector have expanded to meet increasing demand? In this case, the benefits of PS are less since there are countervailing negative benefits elsewhere. Fifth, what benefits accrued to those who were able to get blocks cheaper or better paying jobs in other companies due to PS work?

The resulting answers lead through a maze of IRR's, all of which are correct, but all view the reality differently.

Were we to assume that PS probably would have folded without additional capital inputs, then all the workers employed at any one time at PS are beneficiaries. We can include the entire wage bill if we assume that, were they able to get a job elsewhere, it would have driven someone else out of work and the existence of PS had a positive effect on wage rates. In this formulation, we also assume that the people who purchased blocks received benefits of 8c per block since that is the average amount by which PS blocks are under those of competitors. Thus, assuming a 10-year project benefit life we get an IRR of 16.8%. Lowering the project life to 8 years reduces the IRR to 10.0% and lowering it still further to 6 years yields an IRR of -7.0%. Thus, the institution building element of the Project is critical. The failure to achieve a mutually agreed upon MAP and have an FCH-trained manager in place at the end of the Project reduces the length of time we can reasonably attribute benefits to the work of the Project.* Were we to change the assumptions and indicate that only 20% of the work force could have found jobs elsewhere (or that the net job creation of the Project was equal to 80% of the workforce at any one time), then the IRR's are each reduced by about five percentage points.

We can realistically assert that the benefits from the Project are the increases in the workforce at PS that came about after the bottom was reached (i.e., 40 workers) plus the increases in cement blocks production over what was being produced when the Project began. In this case, using a ten-year project benefit life, the IRR is -5.6% and using an 8-year project benefit life the IRR is -15.1%.

This evaluator prefers a different benefit stream as the one which most accurately reflects the benefits of the Project. This is the increase in joinery employment, plus 60% of increase in the slab's total costs, plus the 8c per block produced in excess of what was being produced when the Project began, plus attributing benefits to those that were let go, or left on their own accord, after the initial workforce reduction. The rationale is: much of the slab value-added came from purchases in Lesotho including, but not limited to, sand dealers and the quarry. While some of this would have gone to other people, the

* As noted earlier, a MAP was approved on 27 November, 1981.

increase in demand probably allowed them to increase prices. Thus, allowing a portion of the total costs (which includes wages paid) takes into account this spread effect. Those that left PS benefited from working at PS and it is reasonable to indicate that the skills they learnt probably improved their employability and salary. Using a 10-year project benefit life, the IRR is 14.1%, with an 8-year project life the IRR is 7.4% and with a six-year life the IRR becomes -8.9%. (Dropping the last group of benefits will only reduce the IRR's by less than one percentage point.)

While the IRR for a ten-year life is not particularly high, it is acceptable, given conditions at the time the Project was initiated. AID correctly asks for a higher IRR now given higher interest rates and inflation than were experienced in 1977. However, in order to achieve the ten-year benefit life, we must assume that the institutional development is more in place than is justified.

While it is not truly 'fair' to judge the parts of the Project separately, since the Project was a single entity that together would achieve project goals, it can be done and provides some insights into the performance of the Project.

Most of the Project costs are attributable to the joinery's operations in terms of equipment purchased, buildings constructed, and the time of the FCH advisor. While usually PS indicates that 75% of the salary overhead is attributable to the joinery, this analysis uses 70% of the FCH advisor's salary being attributable to the joinery.

For the slab, if we assume that the increase in employment and brick production are the benefits, then with an eight-year project benefit life the IRR is 25.9%. If the benefits are the lower price of the increased block production plus 60% of the increase in slab costs, then for a four-year project life the IRR is 89.6%. In short, there was no reason for AID to get involved in providing funds for the slab. The IRR is sufficiently high that the private sector would have, and indeed has, increased production to meet the demand. Alternatively, Lehco-op could have borrowed money from a bank and made sufficient profit to repay the loan and still have excess left.

For the joinery it is a different picture. The only benefit which can be justified is either the full wage bill of the increases in employment at the joinery or some proportion of that wage bill (to allow for the probability of finding work elsewhere). If we include as the benefit the full value of the increase in the joinery's wage bill, then even with a 20-year benefit life the IRR is -6.7%. Allowing for a possible increase in employment next year of 6 additional people due to the expansion of the building completed with Project funds, then the IRR with a 20-year benefit horizon becomes -3.2%.

Thus the joinery has still to achieve sufficient benefits to make it a worthwhile use of the invested capital. This is one reason why the joinery does not have competition in the private sector. Few individuals invest money with a negative rate of return. The joinery must either increase its prices and thus remove the implicit subsidies given to purchasers, switch to a standard line where equity considerations could permit a reduced rate of return or continue to limp along with perpetual cash flow problems. The capital output ratio of 0.27 indicates that additional capital can allow sufficient additional production so a profit making enterprise is conceivable. But without any benefits flowing to lower income groups, it is difficult to justify further donor assistance. (The output capital ratio for the slab is a remarkable 0.12 which justifies additional expansion, especially since there is a shortage of supply.)

21. UNPLANNED EFFECTS

By and large, the IRR's just reported confuse growth with development. They view that more employment, more outputand more production to be justified measurable targets. To a great extent, this may be true. The poor are most interested in jobs and the availability of more output and cheaper items. The rich can talk about the need for more choices, reduced dependence on South Africa, environmental improvements and equity. The poor more frequently want a job, more income and the hope for a better future.

But there is a side benefit of the Project which is of interest to development economists, sociologists and others. While it may not directly benefit the poor or place more food in stomachs, it is nonetheless important.

Mentioned earlier is the'truism'that Lesotho lacks skilled and semi-skilled manpower, it lacks entrepreneurs and it lacks good accountants or managers. Since so many people mention this, it is generally assumed to be true. Too many people feel that if something is well made it must come from South Africa; the shoddy items will come from Lesotho (excepting local handicrafts where production must be supervised by non-Basotho or be kept simple or repetitive). In short, there is an inferiority complex within the country. The good, the strong and the talented will go to South Africa for jobs; there are not good jobs in Lesotho. The economies of most low-income countries are viewed as sources of raw materials which are fashioned into quality items in the richer countries. When enough people repeat these they become 'true'.

PS has demonstrated the ability to train and upgrade skills so that the concrete work is incredibly efficient, producing bricks and blocks of exceptional quality. The joinery has shown that high quality furniture can be made in Lesotho with Basotho labor using South African wood. This is a reversal of the usual situation. The raw material comes from the richer country and is made into a quality item in the poorer country. PS has been able to train accountants, financial analysts, foremen and a potential manager. These people have learned by doing and making mistakes.

There will continue to be mistakes but at least there is the possibility that there will also be the continued ability to learn from the mistakes. These people lack the academic credentials so often admired in Lesotho and other countries. But they also lack the elitism that comes from excessive emphasis on academic credentials.

What the Project has done is demonstrate that skills can be upgraded and that Basotho can become skilled managers, accountants and foremen. These skills may be short in the country, but it is not because of any inherent characteristic but partly due to the lack of trying.

Thus, the Project has changed an attitude amongst some people. Quality can come from Lesotho, skilled people can find jobs in Lesotho, and Basotho can be the people holding those skilled jobs.

But this is not food in the stomach, just hope.

22. LESSONS LEARNED

The most important lesson is that technical skills, money and energy are insufficient to make an enterprise. Business skills go beyond these. Place a technician in charge of a project and you will get high quality. Place someone with a lot of energy and you will get ideas popping out all over the place. Place either of these with a lot of money and either you get scattershot attempts to do everything or output of which you can be proud. But if you want a viable enterprise, capable of living after USAID departs, at some time early on, bring in a businessman. Bring in someone with practical experience in running a small business that is roughly comparable; let that person look at the records that are being kept, explain what is needed and how to use the results, let him check the costing approaches and provide suggestions for organization of the enterprise. Academic credentials can help or they can hurt. What is important is the ability of the individual who comes to relate to local problems and make usable suggestions.

Projects such as these frequently forget the need for a large amount of money to finance raw material purchases. There was nothing in the original proposal, presumably since it was felt that the Project would be sufficiently profitable in a short enough period to generate the needed capital. More likely it was overlooked. Providing too much capital will not place pressure on the firm to become efficient quickly. But not giving any funds for raw material purchases will assure that it never makes it to the position of being efficient.

Throughout this evaluation, two other lessons have been emphasized; they are not new to this project. A counterpart must be found as close to start-up time as possible. If one is not found at that time, then incessant pressure must exist to find one. The other lesson is that the relationship of the project to other projects or to other governmental and non-governmental bodies must be known and agreed to. PS was quickly created without sufficient thought as to its relationships. Even after exceptional difficulties arose, no agreed upon relationships were established. It ought to have been done when the Project was created and definitely no later than the when the Project was amended.

One last point which is not so much a lesson as a query. Is it a legitimate role for AID to create a quasi-governmental production unit to compete with private sector producers? The support for a cooperative, which was at the heart of the original proposal, never affected the operation of PS. If we want to support cooperatives, then the production ought to also take place in a cooperative structure. The vehemence with which the manager of Lehco-op dismissed the idea and in explaining the reasons for the dismissal of the first FCH advisor, leads one to question whether there might also have been antipathy to the idea from the time of the original proposal.