

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE
C
A = Add
C = Change
D = Delete

Supplement
Assignment Number
1

DOCUMENT
CODE
3

2. COUNTRY/ENTITY
Guinea (USAID)

3. PROJECT NUMBER
675-0216 PD-ABG-801

4. BUREAU/OFFICE
AFR 06

5. PROJECT TITLE (max)
 RURAL ROADS PROJECT

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
0 9 3 0 9 6

7. ESTIMATED DATE OF OBLIGATION
(Under 'B' below, enter 1, 2, 3, or 4) **84518**
A. Initial FY 9 1 B. Quarter 4 C. Final FY 9 5

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

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. TOTAL	E. FX	F. L/C	G. TOTAL
AID Appropriated Total						
(Grant)	(5300)	(0)	(5300)	(33000)	(0)	(33000)
(Loan)	()	()	()	()	()	()
Other 1.						
J.S. 2. Host Country (Beneficiaries)				1,000		1,000
Host Country (GOG)				13,500		13,500
Other Donor(s)				47,300		47,300
TOTALS				94,800		94,800

9. SCHEDULE OF AID FUNDING (\$000)

APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATION TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1 Grant	2 Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SS								33,000	-0-
(2)									
(3)									
(4)									
TOTALS								33,000	-0-

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

11. SECONDARY PURPOSE CODE

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

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

The purpose is to improve market access for rural producers.

[Signature]
8/12/40
A/CONTROLLER

14. SCHEDULED EVALUATIONS

15. SOURCE/ORIGIN OF GOODS AND SERVICES

Interim MM YY MM YY Final MM YY
0 7 9 3 0 3 9 6

000 941 Local Other (specify) 935

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a 3 page P2 Amendment.)

The purpose of this amendment is to modify the implementation plan (Section IV.B.3.a.-page 59-61) to allow for alternative procedures under the FAR.

7. APPROVED BY
Signature: *for William G. Kaschak*
Title: USAID/Guinea Director
Date Signed: MM DD YY
0 8 1 1 2 9 2

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

RURAL ROADS PROJECT PAPER SUPPLEMENT NO.1
(675-0216)

I. PURPOSE OF SUPPLEMENT

The purpose of this Project Paper Supplement No. 1 is to modify the Project implementation plan (PP Section IV.B.3.) to add the language below which allows for alternative procedures under the FAR method.

II. ADDITION TO IMPLEMENTATION PLAN

The FAR Approach (PP, pgs. 59-61)

Per AID Policy, as outlined in HB3, Appendix J, Section D, Alternative Procedures, variations in reimbursement methods are possible which still meet some of the objectives and advantages of the FAR.

These options include:

- 1) advance of AID funds;
- 2) fixed amount reimbursement with escalation negotiated periodically; and
- 3) percentage of actual cost reimbursement.

According to HB3J, Section D.1., advances of AID funds may be required especially in relatively least developed countries where budget funds are in short supply. This option requires a thorough review of the grant recipient's financial position and budgetary procedures. This was done during the original PP design and again in November 1991 through an AID contract with Ernst and Young. The budgetary procedures of the umbrella PNIR Project (implemented by GOG/MARA Direction Nationale du Genie Rurale - DNGR) were determined to be sound, but the financial resources of DNGR limited.

During the PP design, the world Bank agreed to provide advances to the GOG. At this time, the World Bank is no longer able to provide advances due to increase costs of road rehabilitation on certain segments included in the IDA portion of the PNIR Project. Thus, it is necessary to enact the advance option under the FAR alternative procedures to allow construction to start under the Rural Roads Project. When the reimbursements are made for completed road lots, a prorated amount will be deducted from each payment by AID until the advance is worked off with the final disbursement.

Section D.2. of HB3J discusses a FAR alternative procedure to allow periodic renegotiation of lot prices. This option seems appropriate for several reasons. It responds to the relatively high inflation rate in Guinea and the inherent difficulties in accurately estimating lot costs for road construction under highly variable conditions and over a period of several years. Therefore, this option could be appropriate for this Project.

The exact method of reimbursement and the detailed procedures for the advances will be discussed and agreed to with the GOG and transmitted through a PIL.

III. CONTINUING VALIDITY OF ORIGINAL PROJECT PAPER

Except as modified herein, all other provisions of the Project Paper remain in full effect as originally stated.

Section D.2. of HB3J discusses a FAR alternative procedure to allow periodic renegotiation of lot prices. This option seems appropriate for several reasons. It responds to the relative high inflation rate in Guinea and the inherent difficulties in accurately estimating lot costs for road construction under highly variable conditions and over a period of several years. Therefore, this option could be appropriate for this Project.

The exact method of reimbursement and the detailed procedures for the advances will be discussed and agreed to with the GOG and transmitted through a PIL.

III. CONTINUING VALIDITY OF ORIGINAL PROJECT PAPER

Except as modified herein, all other provisions of the Project Paper remain in full effect as originally stated.

Clear:

PPD: DHess DH (draft) date 3/13/92
PPD: SHaykin _____ (draft) date 3/18/92
RDO: DMadvin _____ (draft) date 3/18/92
RDO: ACarvalho ABC (draft) date 3/18/92
A/RDO: FManteiga _____ (draft) date 3/19/92
EXO: GRender _____ (draft) date 3/16/92
~~CO:~~ MROcha MA 6/8 (draft) date 3/25/92
RDO: SKReddy SKR date: 6-10-92
DD: AReed AR date 6/5/92
REDSO/WCA RLA: JKnott (ABIDJAN 06866)!

draft: 3/11/92: PPD: MA RRPPAMEN.
edit: 3/19/92; 3/24/92; 3/31/92

ACTION MEMORANDUM FOR THE USAID/GUINEA DIRECTOR

Date: June 4, 1992
From: Sanath K. Reddy, RDO *S.K.R.*
Subject: Rural Roads Project Paper Supplement No. 1 (675-0216)

- Ref: 1. Rural Road Project Paper (675-0216)
2. Abidjan 00472
3. Abidjan 001221
4. D. Madvin/S. K. Reddy memorandum of 12/17/91
5. World Bank's letter of 1/9/92 to the MARA Minister
6. Abidjan 003094
7. Conakry 01747
8. Conakry 01983
9. Conakry 02506
10. Abidjan 06866
11. State 157548

I. Action: The action required is to sign the attached subject Project Paper Supplement number one to allow use of alternative FAR procedures, such as advances of USAID funds and FAR with escalation negotiated periodically for road rehabilitation costs.

II. Background: The Rural Roads Project (RRP) was approved and authorized by AID/W on 9/24/91. The RRP is an integral part of \$ 94.8 million PNIR Project (Project National pour l'Infrastructure Rurale) which includes other donors, principally the World Bank, KFW and FAC. The World Bank is providing IDA credit of \$ 40.0 million to the PNIR Project.

The Fixed Amount Reimbursement (FAR) method for the reimbursement of road construction costs under RRP was chosen for a number of valid reasons as stated in the PP Section IV.B.3.a (Pages 59-61). The road construction activity met all the criteria for FAR as laid out in HB 3, Appendix 3J, Section C except that relating to the host country's financial resources to provide necessary working capital (advances) to begin road construction (Appendix 3J, Section C.8). This is critical in order to avoid delays in implementation due to lack of working capital.

After an in-depth analysis of DNGR and GOG's resources, the PP design team concluded that although budgetary procedures appeared generally sound, the GOG's financial resources were slim indeed, and would not, in themselves, allow for use of the FAR method. However, after several discussions with the World Bank representatives, the PP team found that World Bank regulations would allow for advancing funds (working capital) to the GOG. This would in turn allow MARA and DNGR to finance road construction and rehabilitation activities while awaiting AID reimbursement for completed road segments.

Thus, based on credible assurances of the availability of IDA funds and the willingness of the World Bank to provide advances for construction, the project design team recommended the FAR method as the most appropriate. USAID concurred with the recommendation and it was incorporated into the PP.

III. Problem and Discussion: As the Mission approaches project implementation it has become clear that due to a shortfall of funds the World Bank will not be able to advance funds (working capital) for road rehabilitation under RRP as contemplated in the PP (see Ref. 5). The primary reason has been reported to be the increased costs of road rehabilitation on certain segments included in the IDA portion of the PNIR Project.

The World Bank (the World Bank/USAID/DNGR meeting of January 12, 1992) made an alternative proposal, which, if accepted by USAID, would enable the Bank to advance funds for road rehabilitation. The proposal requires that USAID absorb the \$3.5 million cost of the technical assistance (TA) contract awarded to Louis Berger International (LBI) under the World Bank/IDA portion of the PNIR Project. The TA contract is to provide technical assistance to DNGR in support of the PNIR Project. According to the World Bank, funding of the TA contract by USAID would release sufficient funds from the IDA credit to PNIR, to enable the World Bank to provide construction advances under RRP.

This proposition was examined by USAID (Ref. 4). It was concluded that funding the TA contract will not be in the best interest of the Project for a number of reasons. Principal reasons were: (a) TA contract has already been awarded and USAID had no input into the design, selection and award of the contract; (b) since TA funds would have to be reallocated from the road rehabilitation portion of the RRP budget (\$29.0 million), there would be an output shortfall of approximately 150-160 km of road construction; (c) RRP is already providing technical assistance at a cost of \$4.0 million for engineering and management services, and monitoring and evaluation; (d) alternative procedures described in HB3, Appendix 3J, section D, allow for certain variations in the FAR reimbursement method including advance of AID funds for construction; and (e) continued delays and shortfalls in the host country contribution for the PNIR Project (a requirement of IDA credit) might, in the future, lead to delays in World Bank financing. USAID would not like to compromise progress in project implementation by dependence on advances to be provided by the World Bank. (Note: 600 million GF or approximately \$750,000 for 1991 have not yet been deposited by the GOG in the DNGR account. 1.9 billion GF or \$2.0 million contribution for 1992 was reduced to 1.4 billion GF or \$1,750,000).

The three alternative procedures available under the FAR method have been reviewed (HB 3J, Section D). They are (1) advance of AID funds; (2) FAR with escalation negotiated periodically and (3) percentage of actual cost reimbursement.

HB3J, Section D provides the following guidance on FAR alternative procedures 1 and 2:

"D.1. Advance of AID Funds

From time to time there will be situation when the host country does not have the budget to provide working capital on a current basis so as to permit projects/subprojects to get underway expeditiously. This may particularly be true in a number of Relatively Least Developed Countries (RLDC's) where budget funds are in short supply. Under these circumstances and following a thorough review of the host country's/recipient's financial position and budgetary procedures, AID could consider advancing funds to permit work to begin. When reimbursement is made for completed subprojects, AID would deduct a pro rata amount from each payment until the advance is completely worked off with final reimbursement. All other criteria and procedures set forth for fixed amount reimbursement (C. above) will apply.

D.2. Fixed Amount Reimbursement with Escalation Negotiated Periodically

When inflation is a major problem, AID can consider negotiating periodic increases in its fixed amount contribution to the subproject(s). This arrangement would be most applicable where AID is financing many small subprojects of the same type over a number of years; e.g., construction of 150 schools over a period of 2 to 3 years. In this situation, AID would agree to a fixed amount reimbursement for, say, 50 schools to be completed during the first year and renegotiate the fixed amount contribution for the schools to be constructed during subsequent years. The advantage of this approach would be to permit AID and the borrower to price project costs more realistically and reach agreement on a realistic fixed amount contribution. It would avoid including substantial escalation in the AID fixed amount contribution. All other criteria and procedures set forth for the fixed amount reimbursement (C. above) will continue to apply."

On the basis of consultations with the REDSO/WCA RCO and RLA, it was determined that USAID could execute selected alternatives described above and still meet objectives and advantages of the FAR method contemplated in the PP by executing a short PP Supplement (Ref. 6). Advances of AID funds appear necessary now that the World Bank can no longer provide advances. In addition, the second FAR alternative procedure allowing renegotiation of lot cost escalation periodically holds distinct advantages for the Project. It would take into account the relatively high inflation rate in Guinea. It will allow the GOG and USAID engineers to "learn as they go". It responds to the diverse nature of the lots and the inherent difficulties in making accurate estimates. The possibility of this FAR alternative procedure or other variations will be negotiated with the GOG and the final implementation arrangements under the FAR will be issued through a PIL.

The PP design team performed an in-depth analysis of the DNGR's organization and of the GOG budgeting cycle and funds allocation and disbursement procedures for rural roads maintenance and rehabilitation. On the basis of this analysis the team concluded that the budgetary allocation and disbursement procedures of DNGR were sound.

In addition, a recent review (November 1991) of the financial management, funds disbursement and accounting procedures of PNIR and its field offices, was conducted by the firm Ernst and Young, under contract with USAID. The review also found the financial management system and procedures followed by PNIR's Conakry operation to be acceptable and satisfactory. Although this review by Ernst Young noted that PNIR's field offices (BTGR) system needed improvement, it would be PNIR's Conakry operation that would be responsible for accounting for USAID advances and would utilize the advances directly with the contractor without going through the field office.

Further, the accounting division of PNIR is provided with long-term TA under the PNIR project to ensure proper working of the financial management system and to train its personnel.

IV. Authority: Under the Revised Africa Bureau Delegation of Authority No. 551, dated 3/19/89, the AA/AFR has delegated to the Director the authority to develop and implement projects. As per ref 11, GC/AFR defers to REDSO/WCA RLA's advice as to appropriate signatory to PP Supplement No. 1. With the clearance this action memo, the REDSO/WCA RLA concurs that the USAID/Guinea Director sign the Supplement.

V. Recommendation: It is recommended that you approve the attached Rural Roads Project Paper Supplement No. 1. by signing it.

Draft: RDO: SKReddy

Revised: PPD: RJNiec: 3/11/92; 3/24/92, 5/19/92, 6/4/92

Clear: RLA: J.Knott ^{6/08/92} (draft & in Abidjan 003094)

PPD: D.Hess ^{DU} (draft) _____ Date 3/13/92 _____

PPD: S.Haykin _____ (draft) _____ Date 3/13/92 _____

RDO: D.Madvin _____ (draft) _____ Date 3/18/92 _____

RDO: A.Carvalho _____ (draft) _____ Date 3/18/92 ^{APL} _____

A/RDO: F.Manteiga _____ (draft) ----- Date 3/19/92 _____

EXO: G.Render _____ (draft) _____ Date 3/16/92 _____

CONT ~~ee~~: M.Rocha _____ (draft) _____ Date 3/25/92 ^{9WR 6/8} _____

DD : A.Reed ^{all} _____ Date _____

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ACTION MEMORANDUM FOR THE USAID/GUINEA DIRECTOR

DATE: August 11, 1992

FROM: Stephen M. Haykin,
Acting Program Officer

SUBJECT: Rural Roads Project Paper Supplement No.1
(675-0216)

REFERENCES: 1. Rural Road Project Paper (675-0216)
2. Action Memorandum: SKReddy-Mission Director,
June 4, 1992
3. Amendment No. 1 to Project Grant Agreement,
June 30, 1992

PROBLEM: Amendment No. 1 to the Rural Roads Project Agreement, modifying the FAR payment procedures, was signed on June 30, 1992. However, due to an oversight, the Project Paper Supplement authorizing this change has not been signed.

DISCUSSION: The Rural Road Project Paper authorized \$33 million for road construction and technical assistance as part of the larger, multi-donor Projet National de l'Infrastructure Rural (PNIR). As the division of roles between USAID and the World Bank shifted, the standard FAR payment mechanism proved unworkable.

The ProAg Amendment signed on June 30, 1992 introduced alternative FAR procedures and provided incremental funding, bringing obligations to date to \$13.3 million of the \$33.0 million originally authorized. To date, no payments have been made using the new procedures.

RECOMMENDATION: That you sign the Rural Road Project Paper Supplement, authorizing the change in payment procedures, ex post. This Action Memorandum will constitute recognition of the internal procedural error and will become part of the permanent project record.

Concur

X

Do Not Concur


Wilbur G. Thomas
Mission Director