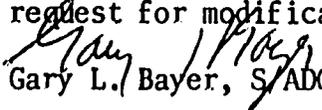


ACTION MEMORANDUM FOR THE DIRECTOR

DATE: June 20, 1988

FROM: S. Tahir Qadri, AGR 

SUBJECT: Eastern Refugee Reforestation Project (650-0064), CARE's request for modification of the Budget line items.

THRU: Gary L. Bayer, S/ADO 

PROBLEM: Your approval is required to approve an amendment in the Operational Program Grant No. 650-0064-G-00-3006 to CARE/SUDAN for Eastern Refugee Reforestation Project (650-0064) in order to accommodate changes in the budget line items that were necessitated during implementation.

BACKGROUND: The Eastern Refugee Reforestation Project (650-0064) is being implemented through an Operational Program Grant (OPG) to CARE. Project implementation started in June 1983 with a total USAID contribution of U.S \$5,050,000 against a total LOP requirement of \$5,860,105. The balance of the funding was contributed by the Government of the Netherlands and CARE. The original PACD for the project (3/31/88) was extended to 6/30/88 through Amendment No.2 dated March 29, 1988. Final evaluation of the project was carried out during February/March this year and has been generally positive and appreciative of CARE's efforts in the implementation of this project. A follow-on project, South Kassala Land Management Project (SKLMP) designed by CARE is being funded by DANIDA and is due to follow this project after the PACD.

CARE requested a modification of the budget line items (with no increase in the USAID contribution) through their letter dated November 10, 1987. In terms of CARE's request, most of the line items in the OPG need to be reviewed and the amounts against each modified to reflect realistic expenditures. Table 1 indicates the line items, the original budget provisions and the modification requested.

DISCUSSION: While considering the modifications requested by CARE, it may be of interest to highlight some aspects of the project that influenced the project budget and necessitated some of the changes in the budget line items.

A. As the implementation of this project began (mid 1983), certain changes had to be made in the OPG to accommodate some of the concerns of the Forestry Administration of the GOS., particularly those pertaining to physical targets of plantations and agroforestry/shelterbelts, house/office rental and construction and the project vehicles. These changes were concurred to by USAID and confirmed under PIL No. 1 dated March 11, 1984 and included the following:

1. Increase in the plantation targets from 6,000 feddans to 8,000 feddans, with consequent increase in the number of seedlings required and associated inputs.
2. Construction of office building at Gedaref and two residential

buildings at the field sites, instead of renting them.

3. Purchase of trucks instead of renting them for transportation of seedlings, materials and equipment to various field sites.

4. Procurement of 8, 4-WD pick-ups instead of 10 and 4 tractors instead of 2.

B. Two large nurseries (500,000 seedlings capacity) were to be constructed under the project, but no funding had been provided.

C. One of the two nurseries was flooded and completely destroyed during the 1985 rainy season when the Atbara river (on the bank of which it was situated) rose to unprecedented levels. This nursery had to be reconstructed on higher ground soon after the rainy season was over.

D. The mid-term evaluation conducted in October 1985 recommended an intensified extension program to be implemented during the remaining period of the project. The recommendation was accepted and an intensified extension program undertaken.

F. The total LOP funding for this project amounting to \$5,860,105 includes \$1,407,573 as a line item for Inflation. This item had not been distributed against various categories of expenditure at the time of project design. At this time, however, it has been distributed against various categories of expenditure as required. In the Modification request, therefore, it has been indicated as zero.

Given the above stated factors that influenced the design as well as budgetary aspects of the project, CARE's request for a budget modification is understandable. These factors alone, however, are inadequate for justification of the magnitude of the modifications requested by CARE, for some line items in particular. Additional justification, therefore, was sought and obtained from CARE.

Further meetings were held with the CARE staff and additional information and clarifications obtained in sufficient detail to enable the Mission to consider the request for modification of budget line items. These details consisting of letters from CARE to USAID (attached), including their initial request for modification, dated November 10, 1987, are listed below:

1. CARE-GOUS letter No. 547 dated November 10, 1987.
2. CARE-GOUS letter No. 577 dated February 16, 1988.
3. AIDE-MEMOIRE of a meeting between CARE and USAID held at CARE office on February 22, 1988.
4. CARE-GOUS letter No. 582 dated March 8, 1988.
5. CARE-GOUS letter No. 583 dated March 8, 1988.
6. CARE-USAID letter No. 589 dated March 20, 1988.
7. CARE-GOUS letter No. 618 dated May 31, 1988.
8. CARE-GOUS letter No. 619 dated June 6, 1988.
9. CARE-Gous letter No. 623 dated June 16, 1988.

33% increase in plantation targets led to a corresponding increase in equipment and materials costs.

Some of the M&E items not originally planned for nurseries had to be procured in the interest of achieving the desired outputs (bore-well in Showak nursery, office and store in Abu Rakham nursery) and meeting the increased demands of the expanded extension program during the last two years of project life.

Underbudgeting of items like stationery, office supplies, nursery and plantation tools in the original M&E budget.

4. Building - Rent and Construction:

Orig. budget: \$274,000*	Mod. requested: \$400,128	Variation:
*(202,500+71,500 Amendment)	(USAID \$387,521, CARE \$12,607)	+\$ 126,128

JUSTIFICATION:

Inflation

The Extension building planned to be built at a cost of \$71,500 had actually to be purchased at a cost of \$113,636. (USAID approval obtained before purchase).

Construction of additional buildings at the nurseries required by the project that had not been planned at the time of project design.

Major repairs had to be conducted to the office building at Gedaref.

5. Labor (Nurseries):

Orig. budget: \$55,600	Mod. requested: \$307,542	Variation:
	(USAID \$294,142, Dutch \$13,400)	+\$ 251,942

JUSTIFICATION:

Inflation

Significant underbudgeting in the original project design. The design estimated labor cost of 1.5 cents per seedling (an estimate completely outside realistic labor requirements and labor rates) for an anticipated production of 3,600,000 seedlings. The project actually produced over 4.0 million seedlings at a labor cost of \$307,542 (7.5 cents per seedling). This seems to be a realistic figure considering the labor rates in the project area and the competition for labor with the mechanized farmers.

Production of additional seedlings necessitated by increased plantation targets (33%) and intensified extension program.

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6. Labor (plantations)

Original budget: \$1,061,167 Modification requested: \$574,337 Variation:
(\$878,000+183,167Amendment) (USAID \$397,951, Dutch \$176,386) -\$486,830

JUSTIFICATION:

Plantation labor costs overbudgeted in the original design.

Savings realized due to changes in fencing installation techniques.

Portions of plantation areas direct seeded leading to savings in labor costs.

Use of heavy equipment (tractors and sub-soilers) in site preparation resulted in significant savings in labor costs.

7. International Staff:

Orig. budget: \$845,000	Mod. requested: \$1,056,763	Variation:
	(USAID \$957,124, Dutch \$21,571	+\$211,763
	CARE \$78,068)	

JUSTIFICATION:

Inflation

Inability to replace volunteers with volunteer replacements made it necessary to hire CARE International staff (2) who were more expensive than volunteers.

8. Local staff and Administration:

Orig. budget: \$401,500	Mod. requested: \$1,024,368	Variation:
	(USAID \$802,624, Dutch \$102,604	+\$622,868
	CARE \$119,140).	

JUSTIFICATION:

Necessity of paying hardship allowances to GOS seconded staff not originally accounted for.

Higher rate of field travel required for achievement of the desired output, both for the expatriate as well as GOS staff, more than originally budgeted.

Greater number of staff had to be hired than was originally planned.

Expansion of extension activities.

Mandatory salary increases for Sudanese staff as per GOS circulars.

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TABLE 1

(Figures in US Dollars)

<u>LINE ITEM (OPG) and</u> <u>AMENDMENT</u>	<u>ORIGINAL</u> * <u>BUDGET</u>	<u>MODIFICATION</u> * <u>REQUESTED</u>	<u>VARIATION</u>
Vehicles	272,000	257,676	- 14,324
Vehicle Operating Costs	167,000	534,312	+ 367,312
Equipment and Materials	472,000	978,226	+ 506,226
Building Rent & Construction	274,000	400,128	+ 126,128
Labor (Nurseries)	55,600	307,542	+ 251,942
Labor (Plantations)	1,061,167	574,337	- 486,830
International Staff	845,000	1,056,763	+ 211,763
Local Staff & Administration	401,500	1,024,368	+ 622,868
Inflation	1,407,573	0.00	- 1,407,573
CARE US Administration	385,607	446,700	+ 61,093
Extension Program	47,558	119,058	+ 71,500
Nursery Construction	59,530	59,530	00.00
Repair Flood Damage	38,465	38,465	00.00
External Audit / Evaluation	63,000	63,000	00.00
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TOTAL:	5,550,000	5,860,105	+ 310,105
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The Original Budget includes the contributions made by USAID (including the \$ 500,000 provided through Amendment # 2) and the Government of Netherlands (GON). The Modification includes CARE Contribution, in addition to USAID and GON, to make up the difference between the two budgets presented above.