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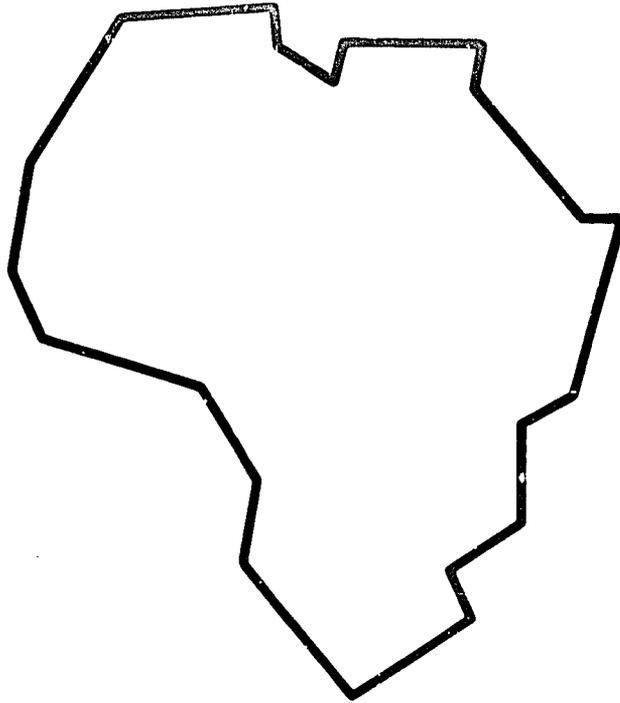
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Project Design and Implementation Guidelines



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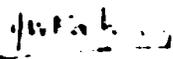
FOREWORD

This monograph is a collection of papers dealing with many of the recurring issues and problems encountered in the design and implementation of capital and technical assistance projects, both loan and grant. It had its genesis in the preparations for the Project Design Workshops held in Abidjan and Nairobi in the Fall of 1978. The papers were drafted by a wide range of people, revised during and after the Workshops and subsequently edited and reviewed by Bureau for Africa management in Washington.

The papers are neither Agency nor AFR policy, and are not intended to be construed as such. Our hope is that they will be used as guidance, or points of reference, in addressing the multitude of problems that Project Officers, and others involved in project work, must deal with on a daily basis. They are also complementary to, and an extension of, the wealth of material to be found in the reports of the Abidjan and Nairobi Workshops.

We welcome your comments on how the papers might be improved. Please forward your comments to the Office of Development Resources, Bureau for Africa.

Finally, while many people contributed to this effort, a special note of thanks to James M. Kelly, Charles Husick and John Heard, all formerly of AFR/DR, for initiating the preparation of the monograph.


John W. Koehring
Director, Office of Development
Resources
Bureau for Africa

Washington, D.C.
March 26, 1979

**AGENCY FOR INTERNATIONAL DEVELOPMENT
AFRICA BUREAU**

**PROJECT DESIGN
AND
IMPLEMENTATION GUIDELINES**

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I. THE PROJECT OFFICER¹ - ROLE AND FUNCTIONS

A. General Guidance Statement:

The project officer is responsible to the USAID for the development of a project. He or she, unless informed otherwise by the mission, is assumed to be the manager of the whole design process.

The project officer should remain the same for a particular project from commencement of the design effort through review of the PP in Washington. The project officer should attend the Washington project review and assist with final processing for project authorization.

B. Discussion:

With the assignment of project officers or persons responsible for project design to most posts, it is important to clarify exactly what is expected in terms of role and functions of the project officer during the design process.

In the past few years officers have often been expected to pull off minor miracles. Often they have had to plunge in and out of projects at the beginning and end of the design process or have been expected to put PPs together from a mass of unorganized paper left behind by technical teams that may not have had adequate guidance nor time to properly complete their work. In other cases, four or six weeks is allowed for what should be a two or three month process and no time is left for editing, negotiating, rewriting, and in general completing the detailed work of preparing a PP for review. In still other instances there has been confusion over who is actually in charge of design and to whom technical teams are responsible. In these circumstances, pieces fall between the cracks, conflicts develop and the final product is often judged unsatisfactory both by the field and AID/W. Project officers, if they are to successfully manage the design process, need the time, logistical support, guidance, and authority commensurate with the nature and magnitude of the task.

The assignment of project officers to field posts is a partial answer to the problems described above. The REDSO design workshops were another measure. In addition, it is hoped that the following guidance and suggestions will prove helpful in terms of establishing roles, functions, norms and procedures that will provide for maximum performance and quality output on the part of project officers and improve the overall efficiency of the design process.

¹ The Project Officer is similar to a Capital Development, Loan or Design Officer, but a Project Officer's responsibilities include loans and grants for technical and capital projects.

1. **Responsibility and Authority:** Whenever possible a single project officer should be responsible for a particular project from conception through the entire PID/PP cycle. Consistency of management of the design process will lessen the probability that key elements or constraints will be neglected and avoid the loss of time caused by repeated necessity of each project officer acquainting him or herself with new project settings, backgrounds and personalities. If at all possible, the same project officer should attend both PID and PP reviews in Washington. Finally, as the project officer will be responsible for the final product, there should be no doubt as to who is in charge of all aspects of the design process. Only one person, the project officer, is really in a position to do this adequately. In the event of dispute or an impasse in the process, there should also be only one person in the USAID to whom project officers and teams will turn for resolution. Preferably this will be the designated project manager or, lacking this, the Mission Director. (It should go without saying that, where possible, the project manager should be intimately involved throughout the design process. Where project manager and project officer are one and the same - so much the better.)

2. **USAID vs. Washington:** During the course of a project design it is the responsibility of the project officer to respond to Washington guidance and policy as best as he or she can. When faced with conflicting guidance between the field post and AID/W, the project officer is bound by the USAID's decisions. This should not be a problem with Mission staff; but, in the case of visiting or contract project officers, it should be made clear that the project officer is acting on behalf of the field post. It should be the responsibility of the project officer, however, to bring potential Washington/field conflicts emphatically to the attention of USAID management and to make appropriate recommendations for resolution, including cabled advice or requests for further guidance to Washington.

3. **Questions of Time and Commitment:** Adequate project design cannot be carried out in fits and starts. While a design team is in the field, the project officer should be on top of the work on a full-time basis. He or she is needed for day to day decisions as the process goes along. The project officer must constantly shape and reshape design activity to assure that the component parts mesh with each other. Often the project officer is the only one with an overall perspective who can see the full implications of any particular recommendation concerning the development of the project. He or she should be with the design team constantly, participate in their discussions and reviews with host country personnel, and understand as much as possible, the technical issues and questions encountered during the design effort. The project officer should constantly be working to refine the overall process and must make a host of judgments concerning who does what, when, and in what depth. The project officer must also have adequate time before and after technical

inputs are developed for adequate preparation, planning, and final drafting and editing - including government negotiations. In sum, the project officer must have time to do the job properly and be allowed to focus entirely upon the specific project during the design period.

4. Design Planning and Scopes of Work: While a separate paper has been prepared on design planning it is important to stress here that this is a major function of the project officer, and he or she should be provided with the time and resources to accomplish it properly. When planning for a project design is done outside the mission, the mission can easily lose control of the design process. This can cause carefully orchestrated scenarios prepared in the field to fall apart. It is particularly important that the project officer with technical support from the USAID, REDSO, or wherever, determine the design team and prepare their scopes of work.² The project officer is the only one, at least theoretically, who knows how individual analytical pieces must be carried out in relation to each other.

5. Participation in Project Reviews: It is desirable that project officers participate in project reviews in Washington. This facilitates the review process and more than compensates for time spent away from the field and travel costs. In the majority of cases, if the project officer is available, problem areas can be adequately explained or resolved on the spot. In other cases, the project officer is in a position to make appropriate adjustments to the project documentation twice as fast as anyone else. Most important, if the project officer can prevent the necessity for returning the PP to the field for further analysis, enormous savings can be realized, especially if further technical inputs can be avoided. The project officer is also normally the best person to respond to questions that may arise during the final executive level review of a project proposal.

²Scopes of work can, and sometimes should, be prepared by technical personnel if available. They should be reviewed and cleared by the project officer, however, as he is the one who will have to supervise their execution. The same goes for determination of the technical team.



II. PLANNING FOR PROJECT DESIGN

The process of designing a project can be nearly as complex as implementing one. Therefore, it is of equal importance to plan for project design as it is for project implementation. Planning for project design can be divided into three phases - PID, Pre-PP, and PP.

A. PID

The requirements for completing the final project design (the PP) should be kept in mind during the development of the PID. The project officer must identify what type technical assistance and data he will require to convert the concept contained in the PID into a satisfactory project design. He must identify which of the data required during the design process is already available and which will have to be developed during the course of the design process.

In the past, PP design teams have been fielded which did not incorporate the proper technical skills or contained outrageous skills. To avoid this the project officer must clearly identify the technical personnel needed and their roles, or scopes of work, for the development of the final project design. As noted in the accompanying paper on the PID, scopes of work for the PP design team should be attached as part of the PID submission.

Because field personnel are more intimately aware of the scope and purposes of a proposed project, they must be the ones to define the design process. This definition must take place during the development of the PID.

B. Pre-PP

For the purposes of this paper the pre-PP phase is defined as beginning when the PID is approved by AID/W and ending with the arrival of the major portion of the design team. It is in this phase that the project officer can increase the chances for a successful design effort or almost guarantee its failure. The responsibilities of the project officer in this phase can be divided into project specific and general.

1. Project Specific: Prior to the arrival of the design team, the project officer should gather all the available data relevant to the project design. He should undertake the development, through purchase, special studies, etc., of the data identified in the PID as critical to the project design but unavailable. The goal of this effort is to have the data required for the design of the project available prior to the final design phase. Achievement of this goal, especially for a complex project, can, in effect, constitute a subproject and may extend over a period of months, if not years. (See the description of mini design team below.)

2. **General:** Prior to the arrival of any member of a design team, the project officer must arrange the necessary logistical support to assure the team member can make optimum use of his or her limited time incountry. A partial list of the support required by all team members follows:

- (a) Host Country counterparts and contacts identified, available to assist, and aware of the project scope, goals, and purposes;
- (b) Necessary Host Country clearances obtained;
- (c) Office space, equipment and supplies;
- (d) Secretarial services;
- (e) Translators (if needed);
- (f) Transport (including air charter if needed);
- (g) Hotel reservations.

C. P.P.

During the final design effort (or development of the Project Paper) the project officer assumes his most active role - that of a manager of a team of specialists. This function is described in detail in the paper entitled "Role of the Project Officer".

Additional Comments

PERT: The timing and logistics of a project design are complex. Assuring that individual team members have what they need to complete their specialized tasks, and can relate to each other in a timely manner, requires management skills of a high order. One tool that the project officer may consider in planning his design effort is to PERT the design effort. The development of a PERT for a design effort will identify the inter-relationships between design team members needed to complete the design effort and the timing of the individual efforts required to schedule the development or gathering of data in order to assure the data is available when needed.

Timing: Related to the PERT is the concept of time needed to complete a design effort. The importance of allowing adequate time to undertake the design process must be emphasized. Beyond the time consuming mechanics of contracting for design team members, the actual field analysis takes from two months to over a year to complete. The Bureau has numerous cases of attempts at "hurry-up" design,

most of which have resulted in redesign after redesign, all of which delayed project authorization and implementation. Cutting time frames too short places undue stress on the host country institutions, does not allow sufficient time to consider development options and usually leads to incompletely defined projects lacking in analytical justification.

Mini Teams: Many projects, particularly complex or innovative projects, may be better suited to a phased series of "mini teams" rather than one unified team. The early teams would basically define primary constraints and suggest a program to address these constraints. Following this phase of the design, AID and the host country officials should review all the recommendations and define the components of the project which we will move forward with. Finally, based on the AID/Host Country agreements on the project description, a final design team, possibly incorporating some of the same staff as the earlier "mini-team", will go to the field. This team will prepare the detailed description, budgets and analysis of the agreed upon project.

This approach requires very careful design planning to assure that the proper investigations are undertaken in the proper sequences and to allow for sufficient consideration of the various development options by AID and the Host Country institutions. It also requires very careful delineation of various consultants' duties, particularly in defining the scope of analysis required in the final phase.

Specific Recommendations:

1. Increased emphasis should be placed on design planning in the PID. This includes carefully defining the various skills needed, the contracting mode for obtaining these skills and timing of various consultant and project officers' inputs;
2. The field post should define the design effort. Scopes of work should be drafted by the field posts and submitted along with the PID rather than leaving it to AID/W. Requirements for additional pre-design studies should be carefully defined and costed;
3. Consideration should be given to a phased design effort as opposed to a comprehensive unified team, particularly in complex projects;
4. Timing of the design process should be carefully considered to assure that there is adequate time allowed for meaningful Host Country collaboration, accurate analytical studies and precise design; and
5. A regular system for keeping AID/W informed of substantive changes must be instituted.

The following check lists were developed and tested by OSARAC personnel to support project design activities in Southern Africa. They have proved their value during actual design efforts. Since these check lists were developed to meet the specific needs of OSARAC, project officers in other areas may wish to use them as a model that can be revised as needed to meet their own needs. While you may wish to revise some details of the OSARAC lists, the concept of a design check list is valid and it is recommended you make use of it.

THE DESIGN OF NEW OSARAC PROJECTS

The following is a list of issues which should be thoughtfully considered by the OSARAC project manager responsible for the design of a new project. These reflect general OSARAC policies and do not duplicate project design requirements which are found in Handbook 3 (e.g. log frame, etc.) and which also must be considered in each new project design. These issues should usually be discussed with incoming project officers and design teams so that they are familiar with OSARAC predilections on these matters.

1. Are qualified Africans available to participate in project design either as government counterparts to the design team or as private individuals on contract to AID?
2. What waivers will be required for the project?
3. Is this project appropriate for host country contracting?
4. Should the Fixed Amount Reimbursement procedure (FAR) be used for construction funded by this project?
5. Can we use design team personnel already familiar with the country and the sector?
6. Is an Initial Environmental Examination or other environmental study required and planned for?
7. Are there linkages to other sectors? Should other OSARAC technical officers be involved in the project design to some extent?
8. Is there sufficient training contained in the project to meet government and AID localization objectives?
9. Are there recently identified issues or tasks not included in the SOW which the design team should be aware of?
10. What AID or other donor experience or similar activities can be brought to bear in designing this project, and avoiding the mistakes of earlier projects?

ORIENTATION PACKAGE FOR ARRIVING DESIGN TEAMS

1. Copies SOW for this Design +
2. DAP or Strategy Statement for the Country +
3. Background Documents including previous AID project documentation (ABS, CP, etc.) +
4. List of key contacts in host country +++
5. Administrative arrangements: info on travel, transport arrangements, office space, secretarial support, accommodations, banking services, etc. +++
6. List of OSARAC staff with design liaison offices clearly designated +
7. Relationship to next design action(s) ++
8. Handbook guidance +
9. Schedule for design team (including entry introduction to Director; entry Program and AID objectives, briefing by Asst. Director and Schedule for "mid-design" Issues meeting with USAID) +++
10. Other Agency documents (IBRD, etc.)

+ Written

++ Oral

+++ Written or oral

PROJECT DESIGN CHECK LIST

1. Project Title and No.: Chicken Pox Control, Lesotho
2. FY OBL: _____ 3. OSARAC Project Manager: Collins
4. Status of Design: PID approved December 25, 1977
5. Design Actions Required:
 - (A) Action No. 1: PP design
 - (B) Action No. 2: Environment assessment
6. Action No. 1
 - (A) SOW drafted by Collins, January 1, 1978
 - (B) Cleared by Technical Officer: same as above
 - " " PDO January 6, 1978
 - " " Program Officer January 5, 1978
 - " " Director January 10, 1978
 - (C) Submitted to AID/W or REDSO on January 12 by cable as coordinated with host country and other donors (cable/PID/memos)
 - (D) Source of Funds and Amounts PDS, AID/W, \$69,000
 - (E) PIO/T termination date: April 30
 - (F) Administrative Support included in PIO/T: vehicle rental (\$5,000), secretary \$2,500, air charter (\$2,000)
 - (G) Team/individual nomination received: February 15
 - (H) OSARAC response: Rejected chicken specialist
 - (I) Accepted: March 1
 - (J) Host country counterparts: PS/Health, Director Communicable Disease
7. Team Composition
 - (A) Design Officer: Ortega
 - (B) Chicken Specialist: Smith
8. Projected Schedule
 - (A) Arrival/orientation: March 15, Mbabane (3/15)
 - (B) Mid-Stream review: April 1, Maseru (4/15)
 - (C) Pre-Final draft review: April 12, Maseru (4/15)
 - (D) Final draft submitted: April 15 (4/21)
 - (E) Departure: April 21 (4/21)
9. Document cleared by Technical Officer May 1
 - " " " PDO: May 1
 - " " " Controller Officer: May 1
 - " " " Economist: _____
 - " " " Program Officer: May 1
 - " " " Director: May 15
 - " " " Others (EXO) _____
10. Contractor Evaluation Submitted: April 25
11. Contractor Evaluation of AID support submitted by team: April 21
12. Date document submitted to AID/W: May 20
13. Expected AID/W review: June 1 (6/25)
14. Field/design team participate in AID/W review: Ortega and Smith
15. Congressional Notification required: _____
16. AID/W approval: July 10 (7/25)
17. Pre/Ag and Implementation Document prepared: July 20 (8/10)
18. Date and Number of obligations: _____ Amount: _____

III. THE P.I.D.

A. General Policy

The Bureau requires the submission of a PID as the first step in project development. Responsibility for the substance of the PID rests with USAIDs. Assistance from REDSOs or AID/W may be available on request. If special studies or other analysis is needed to help missions develop PIDs, Missions may request such assistance or use local PDS funds for such purposes.

B. Discussion of Rationale for Recommended Position

In the best of all worlds, PIDs would flow from comprehensive sector and multi-sector analyses, and they would, as compiled within specific sectors, either result in an AID/LDC program or flesh out a LDC multi-donor sector program. They would also be fully responsive to the LDCs' development plans and proposals and as well be directed to AID's primary target group concerns.

Most African missions and the African LDCs which they serve, do not have the degree of documentation or statistical base in the sectors to permit this ideal procedure. Similarly, AID, as only one of many donors (often a minor or junior one), may not have the freedom or flexibility to deal with the changing LDC economic development environment.

To best serve the missions and LDC concerns, PIDs should be straight forward and realistic in the appraisals of the LDCs' needs, capabilities and wishes as projects are developed. Mission CDSSs should provide an overall framework which can serve, in part, as the basic background information relative to the specific purposes.

It is important for mission staff to recognize that as AID has endeavored to streamline the project approval process by eliminating the PRP step, the requirements levied on the PID have escalated. The PID now serves not only to identify a proposed activity, but must also provide basic information as to the "what" is to be done. If the LDC itself or other donors have also settled on the "how" the technological interventions are to be done, or if the mission has so determined, the PID should note this and provide a minimal description. Well structured PIDs will expedite the AID/W project review process, will minimize the need for additional explanations and will better assure acceptance. Handbook 3 guidance is generally adequate. If PID formats seriously address the questions noted in Section 4(c), the review will go smoothly. Following are a few specific points which the AFR Bureau requests be covered in PIDs:

1. As noted above, be sure to include sufficient information as to "what" the activity is and "what" it is expected to do - in other words, describe the project and its proposed technological interventions.
2. When there is mission/LDC understanding as to "how" the activity is to be managed, what technical interventions appear relevant and feasible and, if decided, what type of implementing agency is desired, be sure to include such information.
3. A draft or preliminary logframe is a very useful annex to a PID.
4. Avoid "straw man" as alternatives are discussed.
5. Indicate other donor activities which support or interface with the proposal.
6. Include a "bare bones" discussion of the LDC institutional environment and inter/intrainstitutional problems-linkages.
7. Your best assurance that you can get useful assistance from AFR/DR in the PP design is to include in an annex the proposed scope of work for the PP design group.
8. Straight forward identification of the issues which you can anticipate the Bureau may have problems with, coupled with the mission's recommended position, helps the AID W decision-making process.

Specific Recommendations

1. Use the foregoing eight points as a "check list" to augment the Handbook 3 guidelines.
2. Structure and write your PIDs keeping in mind their purpose. Be sure to "keep it simple". Badly written PIDs get bad reviews.
3. Be as specific as possible regarding missions' opinions or views on implementation, both within mission, between mission and the LDC and between LDC, mission and contractor.

IV. THE PP: FORM AND SUBSTANCE

A. General Guidance Statement:

While Handbook 3 guidelines for PP preparation should be observed, some flexibility is necessary in both content and format. Above all, the PP should be a straightforward, well organized, honest exposition. Key items of information should be highlighted and set forth in such a way that they are immediately brought to the reviewer's attention and that there can be no confusion as to exactly what is proposed or claimed.

B. Discussion:

There appears to be honest confusion about what the PP should actually be. With the elimination of the PRP, all substantive analyses; technical, economic, engineering, financial, administrative, social, implementation, etc., are now left for the PP stage. Yet a Project Paper of 35 pages is desired with a total length, including annexes, of no more than 100 pages. In the case of the Blue Nile project in the Sudan, for example, the USAID was faced with the problem of what to do with 450 pages of technical reports, project description, and other required annexes and material. To establish the feasibility of the project and the rationale for the proposed interventions, it was felt necessary to submit a Project Paper of 142 pages supported by 300 pages additional material. A shorter paper, it was feared, would not provide the information required to evaluate the project proposal.

The above represents a common problem faced by the project officer daily as he tries to put a project paper together. How much depth is required? In complex rural development projects especially, the host of issues that must be anticipated is formidable. How does one cover all bases without ending up with an endless document?

As expressed in the Guidance Statement, there is really no set model, format, or length that can be applied. Project offices and teams must respond to the varying demands of different situations with flexibility. The following rules of thumb and general guidance, however, may prove helpful.

1. Length: For small or simple single-activity projects it should be possible to meet Handbook 3 guidelines with no real problem, i.e., 35 pages of basic PP text and a total of no more than 100 pages including annexes. For larger, multi-activity or "integrated" projects, however, especially those with controversial issues where considerable analytical content is required,

some real though must go into layout and packaging of PP material. In general, the body of the PP should summarize and refer to annexed material. This can be done with both analytical and descriptive elements. Where analytical documentation is particularly voluminous, one volume for official review purposes can be prepared which would include such standard required annexes as statutory checklists, the Log Frame, and waiver justifications. The second volume could then include all full technical analyses (including economic, social soundness, IEE, engineering, etc.) and would be printed in smaller quantity for those with a technical interest in given elements. The second volume will also be necessary for detailed project planning and administration by USAIDs, contractors and government personnel in the post-authorization period. In those extreme cases where even basic summary information exceeds acceptable length criteria, the PP should be completed as required for negotiation and implementation and then a separate summary prepared for review purposes with the full paper available for technical back-up where necessary.

As a rule of thumb, the basic volume, whether complete or part of a two volume set, should be no more than 100 pages, single spaced.

2. Editing: As with any complex job of drafting, sufficient time must be programmed for rigorous editing of material to insure brevity and consistency. In many cases, tough editing by itself can bring a PP's length within reasonable bounds. The time must be allotted, however, especially in those cases where a number of technicians have produced separate pieces to be incorporated into the PP. Also, changes are often required as a result of government negotiations, and time for reworking the paper must be provided. The same goes for internal (USAID) reviews.

3. Form and the Importance of the Opening Summary: A standard complaint in the review process is that this or that key section or piece of information can't be found or is not readily apparent. A negative mind set can be created in the reviewer or executive if he or she cannot, for example, immediately find the issues or basic funding information. In part the problem can be overcome with careful organization and a detailed table of contents. Beyond this, however, the first few pages of the PP should be a summary of the entire proposal. That is, the project should be described in one or two paragraphs, legal and statutory criteria should be referenced as cleared and pinpointed as to location; summary financial information should be presented; the technical, economic, social, environmental, and engineering annexes should be referenced in terms of acceptable findings or outstanding problem areas. The evolution of the project should be described in a paragraph. Finally, issues should be spelled out along with treatment and resolution, referring to

appropriate annexes. Don't make reviewers search for issues and answers. Put them up front and tell the reader where to go for detailed treatment. (A sample opening summary is attached as illustrative.)

Not only do the above measures make PP documentation much easier to handle, and more useful in the review process and implementation, but they give the USAID a psychological boost and create the impression of competence and sound organization as the case is presented in Washington and in negotiations with the Host Government.

4. Content: Every PP should include the following elements:

a. Basic Text:

- 1) Summary and Recommendations (See above)
- 2) Overview and Relevance of Project (Very brief)
- 3) Goal Structure of Project (Goal, purpose and end-of-project status)
- 4) Project Description, as a Whole and by Component (Detailed outputs should be described and inputs explained and justified)
- 5) Project Analyses (Summaries if covered in detailed annexes) including
 - Technical analyses (agronomy, health, etc.)
 - Economic analysis
 - Social soundness analysis
 - Environmental analysis (IEE or EA as appropriate)
 - Administrative analysis of implementing agencies and USAID relative to project management
 - Engineering (where required to satisfy 611 criteria)
 - Financial analysis and plan
- 6) Implementation Arrangements - both host government and AID - including the mechanisms for disbursement, contracting, procurement, logistics, etc. The implementation and evaluation plans also fit logically in this area.
- 7) Conditions, Covenants, and Negotiating Status. Conditions and covenants should be complete and well thought-out to properly deal with outstanding issues and establish sound management practices. (Don't make Washington define these for you.) Conditions and covenants should be referenced and explained in the text unless standard or self-evident.

b. **Annexes:**

- 1) Mission Director's Certification (611e)
- 2) Detailed Cost Estimate
- 3) Logical Framework
- 4) Statutory Criteria Checklists
- 5) Waiver Justifications - where necessary
- 6) PP response to Washington guidance cables,
or earlier project critiques
- 7) Technical, economic, social, environmental and
other analyses as required.
- 8) Request for Assistance

PART I - SUMMARY AND RECOMMENDATIONS

A. Grantee and Executing Agencies:

The grantee will be the Government of Sudan (GOS) represented by the Ministry of National Planning. The primary executing agency will be the Blue Nile Province Government represented by the office of the Commissioner, Blue Nile Province. Other contributing agencies include: the Ministry of Agriculture and various dependencies, the Ministry of Cooperation and Rural Development, the Central Bank for Cooperatives, the Rural Water Corporation, the National Economic and Social Research Council and the Ministry of Public Works.

B. Recommendations:

1. A grant in the amount of \$1,755,000 over the seven-year period commencing in October 1978 should be authorized to the Government of Sudan for the preparation and execution of the integrated rural development project described in Part II of this project paper. The GOS contribution to the project will amount to the U.S. dollar equivalent of \$3,691,700 (23.6% of total cost) while participating farmer cooperative members will contribute the equivalent of \$226,000 (1.4% of total cost) over the project's life (see Summary of Total Project Costs p. 15).

2. The policy set forth in Handbook 3 limiting the length of a project to six years should be waived to allow a project life of seven years. (The only seventh year activity funded will be the conclusion of the third and last social and economic survey and the post project evaluation. For justification see Annex E.)

No other waivers are requested.

C. The Project:

The project is designed to develop and verify a viable system approach to small farm and livestock development which will be suitable for replication over larger areas of the "traditional" (small producer) rainfed production sub-sector of Sudan. This will be accomplished through a series of carefully planned, supervised and documented interventions on behalf of small producers within a selected area of Blue Nile Province. Of particular significance will be a small farm mechanization activity, designed to determine whether and how the application of farm machinery can truly benefit the traditional holder. Activity components are also included for the improvement of agronomic and livestock production practices. With respect to the "AID Mandate", the project is designed in such

a way that it will stimulate local (village) and regional (district/province) organizational capability to benefit from and maintain the development process in a self-sustaining, participatory manner. Co-operatives are utilized as the primary mechanism for both distribution of services and the development of a self-sustaining structure for micro- and regional economic improvement upon termination of external assistance. Proposed project beneficiaries include some 2,500 small farm and 3,300 Nomad families. (See Part II for complete project description.)

D. Summary Findings:

The Project Committee has reviewed the detailed technical, economic, social, financial, administrative, engineering and environmental analyses carried out for the proposed project. (Parts III and IV and corresponding Annexes.) In each case, the project was found feasible and beneficial. Further, the data, information, and insight to be generated by project execution is expected to result in a policy level impact of far greater importance to Sudan's traditional sector than either the project area or numbers of participants would imply. The project is also found appropriate within the framework of official USAID country program and sector strategies. Project approval, therefore, and early execution are recommended.

E. Legal Criteria:

The project meets all applicable statutory criteria (see Annex D). Planning and costing requirements of Section 611(a) of the 1961 FAA are considered satisfied (see Part III, D and Annex E). Section 611(e) is also considered satisfied (see Mission Director's Certification, Annex A). With respect to the Host Country contribution requirement, combined GOS and participating farmer inputs to the project are conservatively calculated at 25% of total cost (see Part III-F, Financial Analysis and Plan). The GOS request for assistance in the form of this project is currently being prepared by the Ministry of Planning and will be forwarded prior to final project review and authorization.

F. Project Issues:

1. Lack of an Adequate Available "Technological Package"

The maximum improvement in productivity that can be predicted with assurance for the small farmer under this project consists of 25% and 10% increases in yield of sorghum and sesame respectively, the two principal traditional crops in the project area. Agronomic research applicable to the traditional sector (as opposed to the modern sector) in the Sudan is in its infancy. The problem is recognized by the GOS and new research initiatives are planned for early implementation by the Agricultural Research Corporation.

The IBRD/AID Western Agricultural Research project will also contribute as will Bank's Third Mechanized Farming Project now in review in Washington (see full discussion of the issue in Part III-A and in Annex K).

2. The Return to Mechanization

This issue is closely related to paragraph 1 above. Given the lack of a breakthrough on yields, the return to mechanization becomes marginal under rainfed conditions. Although not analytically supported, it is believed that a significant portion of mechanized farming schemes in the Sudan are subsidized both directly, and indirectly. The short term answer relative to the small producer would appear to be expansion of area cultivated, although a labor constraint here must also be overcome. The project will experiment with various family plot sizes and models in search of short term solution. Also, increased small farm liquidity under the credit program may overcome the labor constraint in part. In the long term, as with the technological package, the answer must come from research (see discussion of the issue in Part III-A and Annexes J and K).

3. Cost of Project and Recurring Cost

Obviously the cost of the project is high, relative to the target group. Likewise recurring cost levels represent a substantial subsidy element. The problem diminishes in degree, however, in relation to the experimental thrust of the effort. The project has significant institution and system building elements and potential (see full discussion in both Financial and Economic Analyses, Part III).

4. Social Issue: Mechanization for some but not for others

As will be seen in the project description only some 1,000 farmers out of 2,500 to participate in the project will actually receive mechanization services. There is a concern that the non-mechanized package may not be well received and that valid comparative analysis, therefore, may be in jeopardy. The problem should be overcome in part by the credit program which should convince many farmers, in severe need of cash for both labor and consumption, to participate productively. Beyond this, cooperative and agricultural extension efforts will have to be very carefully tailored to stimulate sufficient participation and cooperation.

5. The Merchant

The cooperative/credit strategy is aimed directly at undoing the highly profitable debt peonage system benefitting local merchants. Whether or not the merchant can be benefitted sufficiently through other means to accept this without undercutting the cooperative

and credit system in ways at his disposal, remains to be seen. Also, farmers are reluctant to alienate the local merchant as in times of trouble he may be the farmer's last resort. The merchant is also a farmer, however, and stands to benefit from project services, although not as much as the traditional producer. The merchant's superior education and financial experience may also benefit the village co-ops if he assumes a positive leadership role. Nevertheless, careful controls will have to be established to avoid having the merchant absorb more than his share of the project benefits at the expense of the smaller farmers (see discussion in Cooperative and Social Services Analyses and Annexes I and O).

6. Cooperatives and the Co-op Union

It has been argued in earlier critiques of this project that the concept of cooperatives and an integrative cooperative structure (the Union) is too sophisticated for the limited experience and existing managerial capability of the area. There was much to support this argument, especially as the project was originally structured. The design of the system has changed significantly, however. As the co-op system is now structured, the Union will eventually be a single, medium-sized multi-purpose cooperative. In effect the village co-ops will be branches and will have very limited (at least initially) roles and functions. The two primary services of the system, credit and mechanization, will be centralized at the Union level. Over time, as the village co-ops grow in capital and experience, they can expand more on their own account, but this will be a gradual, long term process. The Union, on the other hand, will have professional management from the start and will gradually assume financial responsibility for it and services as volume and capital grow during the project (see Annex I for full discussion of viability of the cooperative scheme).

G. Project Evaluation

In May 1977, AID contracted with the American Technical Assistance Corporation to prepare a report on "AID Involvement in Traditional Agriculture in the Sudan". As part of the report, a PID was prepared for a project in the Blue Nile Province for "Traditional Agricultural Sector Mechanization". The PID inputs, budgeted at 3.8 million (U.S. contribution), were approved by AID/W in State 225572 dated September 20, 1977 (see Annex G).

In October 1977, AID contracted with Pacific Consultants to field a design team and to prepare a Project Paper. The team spent five weeks in Sudan in November and December 1977. The team expanded the scope of the project as well as the U.S. contribution to \$20 million. In March 1977 AID/W reviewed the draft PP and recommended a revision of the focus and scale of the proposed project (see Annex G). As a result, a team was sent from AID to the Sudan in April 1978 to assist USAID/Sudan in redesigning the project resulting in this project paper.

V. DESIGN INNOVATIONS

A. General Guidance Statement:

Certain design innovations,¹ discussed below, are encouraged in those cases where normal feasibility analyses and planning are not possible due to constraints imposed by lack of data, time, infrastructure, institutional, financial, or technological resources. The suggested approaches are especially useful for complex regional, sector, or "integrated" projects incorporating a number of mutually reinforcing interventions. Most of the innovations, in one way or another, permit an evolutionary design process to occur based on experience gained in actual implementation.

B. Discussion and Recommended Innovations:

If Handbook 3 and other official guidance are to be seriously followed, Africa project design teams are often faced with seemingly impossible tasks. Lack of data alone frequently precludes adequate feasibility analysis without time consuming and costly basic survey work. In other cases, designers are faced with institutional voids and must plan in a vacuum. In such instances, to press on with the complete design of a project, which can have no supportable technical foundation, is a costly mistake for AID and for the Host Government. When designs of this nature are reviewed in Washington, they are consistently turned back for further work, sometimes on a piece-meal basis, sometimes for radical surgery or complete redoing. As many Missions will testify, when project submissions are returned under such circumstances, the results are frustration and embarrassment, not to mention the additional workload and costs involved.

In most such "impossible" situations, however, there are innovative ways of dealing with existing constraints. In the African setting especially, brain storming and "free associating" is essential and urged by the Bureau. Many of the controversial recurring issues faced time and again in AID/W reviews, and in implementation, could be circumvented by the application of some variation of one of the models suggested below. There are, undoubtedly, many others. New ideas and proposals are welcome and solicited.

1. Phased Development: In cases where a project is clearly of a long-term nature, in terms of institutional, system, or sector objectives, then the project should be so designed. (Casamance

¹ The catch word "innovation" is used here advisedly for lack of a better term. Actually most of the approaches discussed have been around for a number of years.

Regional Development in Senegal is a case in point.) Phase I can lay institutional, research, and infrastructure groundwork over a three to five year period, for example, with a significantly expanded field operational phase to follow. The entire scenario can be initially planned for a decade or more, even when the initial phase is for a much shorter period. River basin development is an area to which the approach is ideally suited. The key to a successful design under this approach is the careful definition and planning of sufficiently discrete phases, especially the first phase. It should have concrete objectives and realistic, measurable output targets. Also, the analytic groundwork for the design of the following phase so that resources from Phase II will come on stream before the initial project expires and momentum is lost.

2. The Evolutionary Approach: The phrase was coined in the Bureau in early 1977 and applied to such projects as Mali First Region and Haute Vallee at the PRP level. It is a variation of the "phased" approach. This is the case where project objectives and constraints are of such a high degree of complexity and severity that the analytical basis for authorization cannot be established with a reasonable timeframe. In such cases, an alternative is to authorize a small project with modest initial interventions, while technical specialists carry out the work necessary for the development of the larger or main project to begin in two or three years. A good example of the approach is the Liberia cooperative project approved in 1977. In this case, an initial three-year training project was authorized along with technical assistance preparatory to a major multi-activity cooperative development effort.

3. The Process Approach: The process approach involves the notion of a dynamic design, implementation, redesign process with built-in data gathering and management, feedback, planning and replanning characteristics. The model can be effectively utilized in such cases where actual field experimentation should take place along with data gathering and analysis in order to adequately shape and reshape interventions. Examples are the Sudan Blue Nile Project and Arusha Planning and Village Development in Tanzania. Probably the most important element in the approach, requiring a very thoughtful design effort, is the ongoing mechanism for capturing field experience, data and feedback from participants in a practical form for planning and replanning purposes.

4. Core Capacity-type Projects: A project type employed in a number of countries of Latin America in the past decade has been a special loan or grant for the creation of an inter-institutional analytical and planning activity, normally focused on a particular sector. Sometimes this takes the form of a technical secretariat to an inter-ministerial committee. In other cases, it can be a sector planning office. One interesting grant in Honduras provided funds, technical assistance, and other inputs to a group of four key institutions to build their collective "core" capacity in small farm agricultural

development. Another project in Costa Rica developed an agricultural marketing analysis and planning capability under a special inter-agency committee that considered marketing proposals of both regional and national scope. This type of project is also suitable for long term river basin and regional development efforts involving the establishment of special "authorities" or project management units.

Normally, the core capacity type of project is the precursor to a sector level program. If this is going back to the "sector approach", perhaps it is not an innovation. On the other hand, it probably is for a number of countries in Africa.

5. Rural Works and Other Multiple "Sub-project"

Approaches: Mali Rural Works is a good example of this type. The approach generally establishes a fund, a mechanism, and, sometimes, an organization, for the evaluation, approval, and monitoring of sub-projects - often of a village improvement, low-level rural enterprise, or infrastructure nature. Another variation, known as "co-financing" in Indonesia and Bangladesh, involves the establishment of funds for certain PVO entities and project types. Usually, comprehensive criteria are set up for project selection and approval utilizing financial, economic, social and technical indicators as well as other AID policy considerations. Other, broader variations include cooperative and municipal development fund projects which are often of an intermediate credit institution building character.

The multiple sub-project ("basket") approach is most useful in those cases where the greatest need is for small interventions at the village or cooperative level and where detailed feasibility analyses in advance of project authorization would not be cost effective. The model is also appropriate for developing rural "outreach" analytic and management capacities on the part of both public and private national and regional delivery systems, the operation in Mali, for example, or the ORD of Upper Volta. Finally, such projects can be utilized to develop basic village planning and self-help capabilities. Varieties of initiative that can be generated at the local level are almost endless and can be directed at solving any number of constraints in both economic (income, employment, production, marketing, transportation, etc.), and social (health, education, sanitation, nutrition) areas.²

²Special care with respect to satisfaction of Section 611(a) must be taken with this model. If the purpose of the project is to establish an institution or system, then planning and feasibility requirements can be met in terms of the implementing entity or group. If, however, the intent is simply to carry out certain low level activities, then an exhaustive list of sub-projects must be developed with 611(a) criteria satisfied in advance in terms of particular types of activities, e.g., rural roads. Otherwise, 611(a) will have to be met individually, on a case by case basis, representing an inordinate burden on most Mission staffs.

6. Title XII and the Collaborative Style: A separate paper on Title XII has been prepared. It is important to note here, however, as a potential innovation in areas where a long-term consistent technical support capability is required. This could be combined with several of the above approaches.

7. PVO Innovations: Separate, updated guidance will be forthcoming from the Bureau on PVO project policy and procedures. A number of possible project types are worth considering, however, when faced with the absence of effective governmental channels for needed assistance. These include cooperatives of a variety of types, savings and credit organizations, development foundations, church and ethnic groups dedicated to developmental goals, small enterprise associations, etc. Sometimes a valuable link can be made with a supporting U.S. based PVO. In other cases, an important gap in a government delivery system can be filled by a PVC.

C. Conclusion:

The above obviously does not represent an exhaustive list of possible "innovations" or models that can be pursued when faced with the absence of organizational and other "props" necessary for the "standard" AID project. (Ministry delivery systems, roads, research, etc.) If done seriously, brain storming with host country personnel can yield all sorts of potential innovations for dealing with "impossible" situations.

Again, suggestions are solicited. Finally, it makes sense to tap AID experience elsewhere whenever an idea has been developed sufficiently to be taken seriously as a potential project. The Development Information Service (DIS) should be queried in these cases.

VI. PROJECT TECHNICAL FEASIBILITY

A. General Policy

Handbook 3 requires a technical feasibility section as a requirements for Project Papers.

B. Discussion of Rationale for Recommended Position

The need for a technical feasibility analysis is self-evident when project supported technological interventions are basic to project performance. The heart of the issue is not "what to do" in the PP, but rather "how to do it" in this section.

The most critical matter is to insist that project design technical staff develop technical feasibility analysis, insofar as possible, from the viewpoint of the LDC project target group. The challenge must be to assure that the technologies proposed are relevant to those expected to adopt them.

Of equal importance is an assurance that the technical design staff have fully interacted with Host Government professionals. Technological packages developed by AID-funded professionals in a vacuum are not only unlikely to be adopted, they will probably be resented by the Host Government's staff and either allowed to wither away or be actively sabotaged.

One of the most useful steps to assure useful and targeted inputs from technical staff during design is to have a clear cut scope of service for each technician and a clear understanding of team discipline and responsibilities. Where missions are staffed to provide technical leadership to design staff, they should participate in the design itself. Scopes of work should be drafted by technical staff at missions and/or backstop officers at REDSO and AFR/DR/TECH.

Technical analyses are usually closely linked with economic analysis in projects where increased incomes are part of the goal or purpose level. Technical design staff and economic feasibility specialists often must be convinced of the need for close coordination during the design process. Similarly, the technical analysis needs to be related to the social analysis. Here again, the project officer must act as a catalyst to assure that the technical design specialists are communicating with those responsible for social insights. Responsible Host Government staffs also need to be involved in this critical interface and be fully "on board" when the project's technology is specified.

Technical feasibility analysis must also reflect the "art of the possible". Technical proposals which envision major short-term responses are usually inconsistent with development experiences. It is clearly advisable to be as conservative as possible in quantifying expected results and, when appropriate, be cognizant of the high risks which may be involved. Technological proposals requiring high levels of input and technical services must be weighed both on the basis of recurrent costs as well as on practicality. For example, is the existing infrastructure (e.g., transport, storage, markets, etc.) adequate to permit the technology to be used? Production oriented projects which propose outputs of commodities, without structure or provision for markets, or at prices not apt to create incentives for production, have some truly "heroic" assumptions.

Another segment of the design process where technical design staff should have an input is in the environmental impact area. Environmentalists or design teams need to work with technical specialists to assure a more realistic appraisal of the problems. Similarly, engineering analysis may have substantial effect on the technical analysis. Proposed changes in design of facilities will need a clear understanding by both Host Government and project design technicians.

Specific Recommendations

1. Involve mission technical staff in the design. They are usually the best possible resource to assure that Host Government technicians are "on board". They also should be able to interject some of the real world and problems of the projects target group to the design process.
2. If the mission technical staff is not adequate and well qualified, it is essential to redouble efforts to make the design team fully adequate and familiar with the ecological zone, etc.
3. The project officer needs to be sure technicians, economists, social scientists, engineers and environmentalists are in broad agreement with one another and that the PP is internally consistent.
4. Technical feasibility analysis should be developed in close collaboration with Host Government technicians and administrators.

VII. TECHNICAL CAPABILITY OF INSTITUTIONS

A. General Policy or Guidance

Project papers must provide evidence that institutional capability analyses have included an appraisal of the technical capability of the Host Government institution(s) and their capacity to provide the requisite technical services and the management of such services to the activity proposed.

B. Discussion of Rationale for Recommended Position

Irrespective of the mission selection of the agency or the style of the USAID implementation process, the Host Government institutions or offices involved need to be appraised by AID professionals to ascertain their technical competence to handle the tasks proposed. In some cases, this appraisal may help the mission select the type of U.S. funded contract (or institution) best able to relate to, and overcome, identified technical shortcomings of the Host Government agencies.

There are several questions which need to be answered in an appraisal of this type:

- 1. Quantity and quality of host institution's professional staff, skills and possible shortfalls.**
- 2. Are the skills available currently being (or apt to be) directed to the projects' problem areas or is the institutional structure inappropriate for such use?**
- 3. How does the institution and its technical staff view their role: as service oriented, as a staff function, as problem solvers, as managers, as observers, or other? Is their view of their responsibilities apt to assist or impede project implementation?**
- 4. Are the technical views of the Host Government staff and their perceptions of the technology to be employed relevant to AID's target group in the project and are they technologically sound?**

Another area needing clarification and analysis by professional design staff, both technical and generalist, is to look carefully at the entire institutional base supporting the Host Government's technical inputs to observe inter-linkages with other internal agencies or with other external agencies (particularly other donors).

Often projects will be implemented within ministries or government units where other donors have either major or minor roles. The nature of the institution and its probable responsiveness to the possible difference of technical opinion and advice offered by donors can be a serious problem. In extreme cases, other donors technical staff may be able to countermand or delay implementation of activities of U.S. provided services to the Host Government institution.

It should also be apparent that inter-linkages between technology, project management and project administration need to be such that the technical skills and advice, required for implementation, are relevant and will have a substantial impact on operations. This problem is as much a part of the AID implementation style, where differences in opinion between USAID management and the AID funded contractor often occur and must be resolved quickly.

Specific Recommendations

1. Use mission technical officers whenever available in the analysis of the technical capability of the Host Government institutions.
2. Design team members or contract technicians may be able to appraise technical qualifications of Host Government staff but often are not sensitive to the institutions internal/external interfaces between management, finance and personnel.
3. With mission technical officers and other mission staff, examine other donor technical inputs to the institutions concerned to assure that any AID technical support will be effective and structured at an appropriate level to reasonably assure maximum effectiveness.

VIII. TECHNICAL ASSISTANCE AND TRAINING

A. General Policy

U.S. provided technical assistance for projects should be kept at a minimum, but must be sufficient to assure effective Host Government implementation. Evaluation of this need and ability to meet it should be done by professional technical officers. Training included in projects should be balanced between sub-professional and professional needs. Projects should endeavor to utilize or support Host Government institutions when possible. Training at U.S. institutions should be limited to those cases where specific technical skills are not available or where spaces are not available at African institutions. To the greatest extent possible, training should be done at African institutions.

B. Technical

1. Technical Assistance: There is a tendency to "patch up" basically bad project designs with different colors and shapes of band-aids passed off as "essential technical assistance". When U.S.-provided manpower costs begin to escalate this should be a clear warning that the project may be over-ambitious in terms of what the Host Government can realistically achieve. LDC governments also are growing increasingly restive with regard to what they perceive as grossly inflated T.A. costs.

Alternatives to the extensive use of full-time traditional T.A. vary from project to project and country to country. The first question to be asked, as noted above, is the project activity too broad or comprehensive? Can it be better focused and reduced and thus eliminate the need for some of the T.A. proposed? Can the Host Government redirect some of its skills to provide the capability required?

Another possibility is to suggest to the Government, after agreement with the Peace Corps, the use of Peace Corps professionals or para-professionals to supplement the T.A. In some cases phasing the activity to provide requisite in-country and/or degree training may be acceptable. This scheme, linked with recurring TDYs (preferably by the same consultant), may provide a mechanism to get started without a heavy loan of full-time contract T.A.

Project designs also should clearly specify the degree of skill needed. There is a tendency to require Ph.D. credentials and 10 years of African experience for far too many T.A. positions. Para-professionals, ex-Peace Corps staff, university graduate students or I.V.S. staff may, in many cases, be as welcome by government and far more willing (and effective) to serve in remote

areas. They also generally can pick up local languages/dialects, much more readily and are more willing to become integrated in the communities in which they serve. A word of caution, however, when a project must have a fully experienced and well qualified professional, be sure to so specify. Do not pawn off unprofessional skills on LDC institutions. They often have a few highly qualified local technical staff abroad who can quickly identify lack of skills or judgement. Very difficult implementation problems can result if the LDC technicians feel they are being supported by second rate U.S. T.A.

a. Training: Following is a list of a few of the points that can be made in a discussion of training. These will be reviewed from the standpoint of what is to be expected from the training experience.

1) Training Designed to Influence or Impact on Policy: When project outputs are expected in areas of improved inter and intra-institutional operations and/or coordination, it may be useful to simultaneously involve senior LDC staff from institutions where the desired changes are expected in visits to other LDCs where such changes have been effective. The training must be carefully structured and orchestrated by the mission and/or its project manager else it can degenerate into a "grand tour". The concept is a viable one however, and if used with discretion, can be very useful. This technique is of questionable value if the LDC staff are sent to the U.S. on a more traditional visit.

2) Training for the Target Group: Most T.A. oriented projects give at least lip service to the training of a target group. If this is a part of a design, it is critical that the social analysis provide the needed insights as to the motivation of the target group to be trained. Training is not like a vaccination - it requires the full participation of the trainee. Unless the trained individual perceives some economic, social, or status benefits accruing from training, the process is doomed. Be suspicious of both U.S. and Host Government protestations that "everybody is anxious to be trained". Ask why.

Target group training by U.S.-provided staff is not realistic. If needed, our projects may help defray (preferably non-recurrent) costs and train trainers, but should use LDC training officers and not U.S. technicians and trainers.

3) In-Country Training of LDC Staff: The current "in" concept of training is to emphasize LDC intermediate/low level staff and train "in-country". This concept is perceived by most AID

personnel as more "relevant" to the LDC trainees and somehow more desirable. First of all, if the training is to be put on by U.S. institutions, we have little guarantee of relevancy. This may be alleviated if the design allows ample preparation time, often at least one trip to the LDC by the training institution if the trainers are to be genuinely responsive and sensitive to the LDC institutions' needs and problems. An even more effective mechanism may be to examine the LDC's own institutions and see what short-term help, if any, is needed to permit them to do such training. It is usually useful to look outside the specific technical ministries the project is attached to -- administrative, management training can often be found, tailored if needed, within a LDC. Local certificate or diplomatic institutions and their staff may be supported to perform specific training.

No matter how such training is done, the project design must be very sensitive to the need of the trainee to receive some formal credential acceptable within the personnel system of the LDC which permits access to a promotion. Without such incentives, few LDC staff will be motivated.

4) Training Out of Country: At diplomat, degree and graduate training levels, it is often necessary to use "out of country facilities". Many African countries do not have specific technical training in some disciplines. When these skills are needed, African institutions, when available, or U.S. training is indicated. Several general observations follow: ...don't send LDC staff for degree followed by graduate training without returning to their jobs; ...consider including training in the institutional contracts as opposed to AID direct management; ...resist the tendency to "over train" for jobs; ...be sure that the skills needed fit the job to be done; ...try to make clear to the LDC the need to use returned trainees on project oriented jobs; ...include in evaluation requirements specific mention of the review of out of country training.

Specific Recommendations

1. Technical Assistance

- a. Do not over staff, but be sure real needs are met. Use professional judgement from your design team.
- b. Use the correct T.A. skill levels and qualifications to fit the needs of the project tasks.
- c. When realistic, phase projects to get trained staff available as major project operations initiate.

2. Training

- a. Make the relevancy of training a top consideration.**
- b. Consider the need for trainee motivation.**
- c. Use U.S. training with care and for specific needs which can't be met in-country or in Africa.**

IX. IMPLEMENTATION ANALYSIS AND PLANNING

A. General Guidance Statement

In terms of relative importance, implementation analysis and planning is of the same priority as any other major analytical component in the project design process. PP implementation plans will receive priority attention during project review in Washington. Revisions will be required where deemed necessary. More specific guidance is detailed below.

B. Discussion

Implementation planning is an area which has been consistently neglected and poorly treated in project design efforts. As in the case of institutional capacity, the implementation plan is often tackled at the end of the design job when the rest of the PP is already written. It often receives short shrift as technicians race against deadlines and scramble for airplanes. In many cases implementation planning goes on in a vacuum as the project officer throws something together by guesswork alone, after other technicians have departed. Executing agencies sometimes aren't even consulted. As a result of such firedrill techniques, implementation plans frequently consist on only a bar chart and/or a list of actions with rough timing. This is not sufficient.

The critical nature of the implementation plan should be obvious. No matter how sound or thorough the other analytical elements of project design, feasibility of implementation is of overriding importance. Key decisions by AID, host governments, contractors, and other entities must be based on a realistic plan if significant practical and technical problems in implementation are to be avoided (delays, bottlenecks, false starts, improper sequencing of events or action items, etc.) Also, an overly optimistic or "Pollyanna" type plan can cause serious problems associated with the creation of totally false expectations. Later rational replanning may not be possible due to accumulated momentum and pressure for action on the part of government agencies and proposed beneficiaries. Finally, an unrealistic implementation plan dooms the project to later evaluation problems. A recent, and too common, example of inadequate planning with serious consequences in terms of lost time and frustration is where contract technicians arrived months in advance of completion of necessary housing and other required installations and preparations.

With the above in mind, the following recommendations have been endorsed by the Bureau for application in the field project design process.

1. Although the Planned Performance Tracking (PPT) Network is no longer required for PP presentation, an implementation plan is required. This plan should be based on some form of PERT or CPM-type exercise in order to assure that events and actions are properly sequenced and have the correct relationship to each other.

2. The implementation plan should be developed by the full design team and, at a minimum, checked by executing agencies. Preferably, Host Government personnel should actively participate in the process. Each technician should be satisfied that events and actions in his or her area are properly established in time, in order, and in relation to other activities.

3. Implementation plans presented graphically should be accompanied by concise narrative descriptions which explain important relationships and candidly point out potential problem areas.

4. Above all, implementation plans should be honest. Impossible schedules developed for review purposes can do serious damage to project morale and momentum and cause other costly problems. If it will take three years to actually commence field operations in a crop production project, for example, due to necessary construction, training, organizing, etc., this should be candidly set forth. False hopes should not be generated.

X. EVALUATION AND EVALUATION PLANNING

A. General Guidance Statement

Project evaluation and evaluation planning are field responsibilities. Carefully thought-out evaluation plans are required for all projects. The PP evaluation plan will be checked in the Washington review as a priority item. Projects will be turned back for further work if found inadequate in this area. Evaluation will receive increasing attention by the Bureau as the USAIDs become more heavily involved in implementation. Also, follow-on, phase 2, or other projects which evolve from an earlier effort, (see Design Innovation Issue Paper) will have to be justified on the basis of sound evaluation of the foregoing or "parent" activity.

B. Discussion

Evaluation is often thought of as an AID/W responsibility while design and implementation responsibility belongs in the field. This may be reflective of a widespread feeling resulting from the overriding de facto priority given to development of new projects during the last few years. This is both a natural supposition and incorrect. Evaluation is a critical element in the project design/implementation/redesign process. Especially in the Africa context, where most projects are part of a long-term or phased development process. Evaluation is the vital link between phases. It is essential, therefore, that evaluation and evaluation planning remain with the field as an integral part of both project design and implementation.

Within standard AID project development methodology, the evaluation plan should devolve naturally from the goal, structure and outputs of the project. Yet often - as with implementation plans - the evaluation plans are left until the tail end of the design effort and thrown together hurriedly at the last minute. This is a mistake. Not only is the resulting product sloppy, and not a sound basis for either programming or evaluation, but design teams are missing out on one of the most valuable tools in the design process itself.

Probably most critical early in the design exercise is a carefully articulated definition of the project purpose together with a detailed layout of conditions expected at the end of the project (EOPS) and corresponding indicators. Once this is agreed upon in the Mission and with the Host Government, the remainder of the design process, including the evaluation plan, becomes immeasurably easier. In any case, the evaluation plan should be focused at the purpose level and indicators associated with "conditions expected". Component activities and outputs can and should also be evaluated, but the purpose level emphasis should always remain uppermost.

Evaluation, where possible, should be a collaborative effort between AID and the Host Government. Findings will be much more acceptable to implementing agencies and others affected by the project if they actually participate in the evaluation or - at a minimum - review and endorse findings in a negotiation process with the evaluators.

Evaluation plans should spell out counterpart involvement. Preferably evaluation should be an ongoing process with a built-in mechanism for continuing feedback, monitoring, review, and corrective action on the part of both AID and Host Government personnel (including contractors). One shot evaluations occurring at arbitrary points in time are often ill-received and ignored once completed.

With respect to data collection and the measuring of progress toward indicators, in many settings the baseline data necessary for such a process simply does not exist. Where this is the case, proxies can sometimes be developed in terms of secondary indicators, home improvements or fixed assets as a proxy for income and well being, for example. Often, however, new baseline data should be gathered. This does not necessarily have to happen during design, but can be included as a part of the project to be accomplished during the early stages of project implementation. In such cases, especially where the project represents trials of one or more innovations for hopefully later replication over wider areas, baseline and follow-up surveys are maybe necessary and encouraged.

Finally, while evaluation is a field responsibility, it doesn't happen automatically. Project managers and Mission program personnel are under heavy pressure from continuing commitments. The same goes for key host government personnel. Evaluation represents a cost and substantial commitment of resources just like any other major project component. Evaluation efforts need to be adequately planned and funded with provisions for contract and counterpart inputs where required. These should be structured right into the project together with appropriate institutional arrangements, technical assistance, and funding. The price of sound data collection, analysis, and evaluation is small compared to those projects where AID has no adequate means of determining the effectiveness and impact of interventions.

C. Recommendations

(1) Project purpose and "conditions expected" statements developed early in the design process together with carefully thoughtout, measurable indicators as a basis both for project design and the evaluation plan.

(2) The evaluation plan should reflect a collaborative effort between AID and the host government.

(3) Where possible, evaluation should be part of an ongoing process of feedback, monitoring, review, and follow-up corrective action.

(4) Baseline and before and after surveys are encouraged where an adequate data base is lacking for effective measurement and documentation of project impact.

(5) Evaluations should be funded and set forth in the PP like any other major project activity in terms of cost, other commitments of resources, and technical feasibility.

(6) Evaluation and information system methodology has become sophisticated to the point where it is a distinct technical discipline in its own right. Where needed, expert assistance should be requested for project design teams.

(Note: For obvious reasons it is sometimes not advisable to ask implementing contract personnel to carry out a major evaluation of their own work, although contractors can and should set up sound information systems and feedback mechanisms to monitor their own progress and make adjustments accordingly. In other cases, however, self-evaluation can be a very fruitful exercise. Evaluation should not be confused with audit or inspection exercises oriented toward "compliance" or form rather than substance. Evaluation should be a design, implementation and learning device - nothing less.)

XI. ENVIRONMENTAL REGULATIONS AND PROJECT DESIGN

It is unusual for less developed countries to ascribe much significance to some of the specific environmental issues with which AID now must come to grips before providing financial support for the development aspirations of those countries. Thus AID field missions are in the difficult position of having to develop sensitivity to their host countries' concepts of their development needs, and, at the same time, to instill within the minds of the leaders and planners of these countries a concern for the effects which development projects of various types may eventually have on the fragile human environment, i.e., air, water, land, flora and fauna, and socio-economic conditions.

Specific recommendations or guidelines

It is recommended first of all that field missions review HANDBOOK TRANSMITTAL MEMORANDUM NO. 324 dated May 30, 1978, and its attachment 4B, ENVIRONMENTAL PROCEDURES (as amended). Appendix 4B is a reprinting of Regulation 1b which includes the amendments thereto published in the Federal Register, Vol. 43, No. 93, May 12, 1978. Field missions should insure that copies of Appendix 4B are available for all personnel concerned with identifying, proposing and designing projects.

It is further recommended that field missions review and retain for ready reference AIDTO Circular A-294 (attached) sent July 22, 1978. This circular summarized the major changes resulting from the above mentioned amendments to Regulation 1b. It provides specific guidance on when to prepare IETs, on measures to take in the event that the IET cannot be submitted with the FID, concurrent procedures to follow in the instance of any project involving the procurement or use (or both) of pesticides, and on situations in which additional pesticide evaluation procedures are unnecessary.

AIDTO Circular A-294 stresses the point that Regulation 1b as now amended does not prevent AID from using pesticides, nor does it necessitate a specific determination by the Administrator for the use of certain pesticides. It provides instructions on the preparation of the risk-benefit analysis which AID requires in order to reach a decision concerning pesticides in AID-financed projects.

A recent AID circular (A-22 "Revised Environmental Procedures and presently Acceptable Actions," dated January 23, 1979) informed missions of the Agency's intent to revise procedures to:

1. Expand the categories of activities not expected to have a significant impact on the environment and therefore not normally requiring IEE's, or EA's.

2. A procedure for narrowing the focus of EA's and IEE's by early identification of the significant environmental questions deserving analysis, deemphasis of insignificant issues and reduction of background material.

3. Authorization for reaching Threshold Decisions at levels below the Assistant Administrator and, certain cases, after a project is authorized but before AID is irrevocably committed to finance individual components.

4. The opportunity to combine EA's with other documents including the Project Paper.

5. Encouragement of the preparation of EA's by host country personnel and/or local qualified organizations.

Pertinent portions of this airgram will eventually be incorporated into Handbook 3, appendix 4B.

The Environmental Unit of AFR/DR/SDP has prepared a basic document entitled "General Information on What is Needed in New Projects With Respect to Environmental Concerns". It is recommended that copies of this document (attached) be made available to all field personnel.

GENERAL INFORMATION ON WHAT IS NEEDED IN NEW PROJECTS WITH RESPECT TO ENVIRONMENTAL CONCERNS

Field missions proposing and designing projects should be familiar with the amendment to Regulation 16 published May 12, 1978, in the Federal Register, Vol. 43, No. 93. Copies of this document were sent to the field missions in Africa with AIDTO Circular A-294, July 22, 1978, which presented a summary of the major changes in Regulation 16. The Environmental Unit of SDP can, upon request, provide extra copies of the circular and the amendment. The amendment has, in any case, been incorporated into the edition of Regulation 16 transmitted to field missions with Handbook Transmittal Memorandum No. 3:24 dated May 30, 1978.

An important change for field missions and AID/W program support staff to bear in mind is this: The elimination of the Project Review Paper (PRP) and the Project Assistance Review Document (PARD) from the program and project review process necessitates the presentation of the Initial Environmental Evaluation (IEE) with the Project Identification Document (PID) or the Program Assistance Initial Proposal (PAIP) so that a Threshold Decision may be reached when the PID is reviewed for approval.

Amended Regulation 16 recognizes that at the PID (PAIP) stage some projects may have aspects or components not yet sufficiently clear in detail to permit the completion of an IEE. It, therefore, allows deferment of the IEE in the instance of such projects on condition that the PID (PAIP) provide answers to the following questions:

- (1) Why can the IEE not be completed and submitted with the PID?
- (2) Approximately how much time will be needed to complete the initial environmental analysis?

Besides providing answers to these questions, the PID must specifically recommend that the Threshold Decision be postponed until the completion of the IEE.

Responding to such a recommendation, upon considering the PID (PAIP) in general, the AA/AFR will set a date for completing the IEE. This date will make allowances for the completion of an Environmental Assessment (EA) or an Environmental Impact Statement (EIS), if either is necessary, before the making of a decision on AID funding for the project.

Inasmuch as Regulation 16 now specifies that normally an IEE must accompany each PID submitted to AID/W for approval, field missions and AID/W MUST RESOLVE THE FOLLOWING QUESTION: Who approves the IEE in the instance of projects costing less than \$500,000 which can be approved in the field? In accordance with current practice, the face sheet of each IEE specifies a recommended environmental action and provides a space for the signature of the field mission director or his delegate, indicating concurrence, the ultimate approval of each IIE being the responsibility of the AA/AFR. IEE's for projects costing less than \$500,000 likely to be approved in the field should be sent to AID/W for review and approval on a case-by-case basis.

Another significant provision of the amendment to Regulation 16 concerns pesticides. The procedures specified in the amendment indicate that for any project including assistance for the procurement or use (or both) of pesticides, the IEE must contain a special analysis of the risks and benefits likely to result from the use of the pesticides in question. Field missions and AID/W program support staff should review the text of the amendment to become acquainted with factors which, at a minimum, this analysis should cover. They should also note that the new procedures apply to already authorized projects requiring pesticides if such pesticides were not procured before May 12, 1978, and if relevant project agreements do not specifically prohibit the application of such procedures.

As AIDTO Circular A-294 pointed out, the extent of the analysis of risks and benefits depends on a given pesticide's status in the U.S., i.e.,

<u>if the pesticide: -</u>	<u>the IIE: -</u>
- is registered for the same or similar use in the U.S. without restriction,	must include an analysis of the probable risks and benefits of using the pesticide, and if the Threshold Decision is positive, an EA or an EIS must be prepared;
- is registered in the U.S. but is restricted solely because of hazards to the user,	must include an analysis of the probable risks and benefits of using the pesticide; this analysis must include an assessment of the hazards to the user and indicate how project measures serve to minimize such hazards; if the Threshold Decision is positive, an EA or an EIS must be prepared

-is registered in the U.S., but is restricted because of hazards other than to users (e.g., environmental hazards)

must indicate a positive Threshold Decision, and the EA or the EIS consequently prepared must, at a minimum, include the factors indicated in the amendment.

-is registered in the U.S. but is the subject of the Environmental Protection Agency's issuance of a Notice to Rebuttable Presumption Against Reregistration (RPAR), a Notice of Intent to Cancel or a Notice of Intent to Suspend

or

- is not registered in the U.S.

Note that the procedures specified in the amendment to Regulation 16 apply to AID-financed projects involving pesticides which were not actually procured before the effective date of the procedures (May 12, 1978), unless a relevant project agreement signed before that date precludes their application.

In the following three situations the application of the pesticides procedures specified in the amendment to Regulation 16 is not required:

- (1) projects being undertaken in emergency situations;
- (2) projects in which AID is a minor donor in a multidonor effort;
- (3) projects in which project technicians are to use pesticides for research or limited field evaluation purposes or are to supervise their use for such purposes. (There are restrictions on the use of the crops to which the pesticides are applied.)

Note also that these procedures apply when AID finances the use of pesticides, and not to procurement of pesticides themselves. Some examples of use are financing sprayers or storage or technical advice regarding the use of vehicles to transport pesticides, or financing the salaries or costs of extension agents who distribute pesticides to farmers.

Careful review of the amendment and of AIDTO Circular A-294 is suggested for more details on this matter.

In summary, the pesticides procedures as currently specified in the amendment to Regulation 16 do not prevent AID from using any pesticide or from obtaining specific determinations from the Administrator to use certain pesticides.

Another noteworthy feature of the amendment to Regulation 16 is the inclusion of a definition of the term, minor donor, as applied to AID.

This definition is repeated below:

"For the purposes of these procedures, AID is a minor donor to a multidonor project when (i) AID's total contribution to the project will not exceed either \$1,000,000 or 25 percent of the estimated project cost; and (ii) AID does not, under the contribution, control the planning or design of multidonor project."

AURORA

2-1
DEPARTMENT OF STATE

Attachment 2 to
FD Guidelines Paper
CASLERICH FILE # 294

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TO - AIDTO CIRCULAR A 294 X

520P

7-22-78

FROM - AID/WASHINGTON
E.O. 11652 N/A
SUBJECT - Recent Revisions to Regulation 16

REFERENCE -

1. Attached are final revisions to Regulation 16, effective May 12, 1978, incorporating new procedures for the environmental evaluation of AID projects involving the procurement and use of pesticides and other changes primarily required because of recent changes in AID's project review process. Attached is a copy of the May 1978 Policy Statement on Pest Management. The significant changes made to Regulation 16 are as follows:

- Timing of IEE's: Section 216.3(a)(1). In accordance with recent elimination of the PRP and PARP from the project and program review process, IEE's are now required to be prepared in conjunction with the PID and PAIP and a Threshold Decision is required at the time of PID approval. Because some activities are not identified in sufficient detail to permit the completion of an IEE at this stage, the new Regulations permit completion of the IEE and deferral of a Threshold Decision until after PID/PAIP approval provided the PID contains an explanation indicating why the IEE cannot be completed, an estimate of the amount of time required to complete the IEE, and a recommendation that the Threshold Decision be deferred. In approving a deferral, the official approving the PID is to set a specific time for completion of the IEE and a Threshold Decision in sufficient time to permit the completion of an EA or EIS, if required, prior to project authorization.

PAGE 1 OF 5

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AIRGRAM
CONTINUATION

DEPARTMENT OF STATE

AIRGRAM

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AIDTO CIRCULAR A		UNCLASSIFIED	2	OF 5

- Minor Donor Definition: Section 216.1(c)(12). AID has been utilizing a working definition of minor donor since August 1976. In light of the references to minor donor in both Section 216.2 and in Section 216.3(b)(2) of the pesticide procedures, a decision was made to include the definition in Regulation 16. A review will be initiated of the appropriateness of the percentage and dollar cutoff. It should be noted that both cutoffs are to be applied in each situation. A major donor situation exists whenever either of the tests is exceeded - i.e., AID is a major donor if its contribution exceeds 25 percent ~~of the total contribution~~ or exceeds \$1 million. ~~but not if it exceeds 25 percent of the total contribution~~ AID is not a minor donor in any case where it controls the planning or design of the multidonor project, regardless of the amount of AID contribution. Any thoughts on more appropriate criteria, numerical or otherwise, will be ~~appreciated~~ appreciated.
- Pesticide Procedures: Section 216.3(b). The major changes to Regulation 16 are those establishing supplemental procedures for the environmental assessment of AID projects and programs involving the procurement and use of pesticides. The basic approach of the new procedures is to require, as part of the IEE on any project involving pesticides, a special section specifically analyzing the risks and benefits associated with the planned use. It should be noted that the pesticide procedures apply to all projects "involving assistance for the procurement or use, or both," of pesticides, which includes all projects having pesticide use as an element, even though AID's assistance may not finance the purchase of the pesticide itself but rather finances some other portion of the project such as aircraft, trucks, spraying equipment, containers, pesticide consultants, etc. The procedures also apply to projects authorized prior to the effective date of the pesticide procedures (May 12, 1978) if the pesticides were not procured prior to May 12 unless application of the procedures is precluded by the terms of an applicable project agreement entered into prior to May 12th.

Section 216.3(b)(1) of the procedures contains a list of factors which must at a minimum, be included in ~~ANNEX~~ a risk/benefit analysis. Unlike the interim pesticide procedures, the new procedures do not preclude AID from using any

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pesticides or require specific determinations by the Administrator to use certain pesticides. Rather, the new procedures require that a thorough risk/benefit analysis be prepared which is focused on the proposed pesticide use, taking into account the unique conditions of the recipient country, prior to the decision to use the pesticide. The extent of this required analysis depends, however, on the status of the pesticide in the U.S.:

Status of Pesticide

Required Environmental Analysis

Registered for same or similar uses in U.S. without Restriction

IEE must include section discussing risks/benefits; EA or EIS if Threshold Decision positive.

Registered in U.S. but Restricted Solely on Basis of User Hazard

IEE must include section discussing risks/benefits; evaluation must include assessment of user hazards, provisions in projects to minimize; EA or EIS if Threshold Decision positive.

Registered, Restricted on Basis Other than than User Hazard (e.g. Environmental Hazard)

Threshold Decision must be positive; EA or EIS will be prepared and will include, at minimum, risk/benefit factors in procedures.

Registered, But Notice of Rebuttable Presumption Against Reregistration (RPAR), Notice of Intent to Cancel, or Notice of Intent to Suspend has been issued by EPA

Not registered in U.S.

POST AIDTO CIRCULAR A	CLASSIFICATION UNCLASSIFIED	PAGE 4 OF 5
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2. Bureaus and missions should attempt to identify potential pesticide requirements at the earliest possible time, preferably in the earliest stages of PID development. DSD/AG should be consulted for assistance in determining what pesticides are best suited for the project, whether less environmentally hazardous pesticides are available and would be equally effective, or whether non-chemical pest management alternatives are available and practical. DSD/AG will maintain a list of pesticides and their current EPA status. Bureau and mission Environmental Officers should consider Dr. Fred. Whitmore of DSJ/AG the primary contact with EPA.

It should be noted that the intent of the new revisions is to integrate the pesticide evaluation requirements into the normal IEE process and not to require two IEE's or two separate and distinct processes. A project may include pesticide use as only one of several activities. If the risk/benefit evaluation of the pesticide use shows no significant effect on the environment, the IEE may nevertheless require a positive threshold decision if the other activities will produce a significant effect. A situation may also develop where for appropriate reasons, a negative declaration is reached for an activity involving assistance for the use of pesticides. In this case the declaration would apply to all components of the activity including application of the risk analysis. In such situation, we should do whatever is possible to ensure proper selection, use and monitoring of any pesticides. This same concern for proper selection, use and monitoring should prevail in all other situations where pesticides are involved.

In addition to a requirement for evaluation, the new procedures require AID to notify and consult with the recipient government regarding proposed uses of pesticides for which EPA has initiated the RPAR, cancellation or suspension process. (Section 216.3(c)(1)(iv)) The procedures also provide for the deferred application of the procedures in those instances in which the pesticides are not identified until after PP approval. (Section 216.3(b)(1)(v)).

There are three situations in which the additional pesticide evaluation procedures need not be applied: emergency situations (as defined in Section 216.3(b)(2)(i)); where AID is a minor donor to a multidonor project, Section 216.3(b)(2)(ii); and when the pesticide will be used for research or limited field evaluation purposes subject to the restriction in Section 216.3(b)(2)(iii).

AIRGRAM
CONTINUATION

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3. In accordance with Agency policy not to provide pesticides on a non-project assistance basis, the Regulations provide for the provision of pesticides on such a basis only in emergency situations or in compelling circumstances in which failure to provide such assistance would seriously impede U.S. foreign policy objectives. Section 216.(b)(3).
4. The term compelling circumstances has not been defined but is intended to imply only those most serious situations in which no other way exists to provide the pesticides except through the Commodity Import Program.
5. Attached Policy Statement will be incorporated in Handbook 1.

Attachment 2/2

CHRISTOPHER

- CABLEROOM SEND LIST G
- SEND NAIROBI FOR USAID AND REDSO/EA
- ACCRA FOR USAID AND RPO
- DAR ES SALAAM FOR USAID AND RDOZA/ARUSHA
- GUALEMALA FOR USAID AND ROCAP
- BANGKOK FOR USOM AND RED

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2	BRASILIA	2	KIGALI	3	PORT KAITUMA
1	BRIDGETOWN	3	KINGSTON	3	QUAGABERGOU
2	BUJUMBURA	5	KINSHASA	5	PANAMA
4	CAIRO	2	LAGOS +	5	PARIS +
3	COLOMBO	5	LA PAZ	6	PORT AU PRINCE
1	CONAKRY	2	LILONGWE	2	QUITO
1	COTONOU	5	LIMA	5	RABAT
5	DACCA	1	LISBON	3	ROME +
4	DAKAR	1	LOME	4	SANA
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2	DJIBOUTI	5	HANOI	4	SANTIAGO
1	FREETOWN	2	MASERU	5	SANTO DOMINGO
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CAPTIONS

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POLICY ON PESTICIDE SUPPORT

Bureau for Program and Policy Coordination
Agency for International Development

May 1978

PREFACE

This paper was first drafted in June of 1977 and is based on the findings and recommendations of the Agency's Programmatic Environmental Impact Statement of AID's Pest Management Programs. The current version has taken into account comments received from AID bureaus on drafts of August 2, 1977, October 7, 1977, and April 5, 1978. The basic structure and content have remained consistent with positions taken in earlier drafts.

These policy guidelines supplement the formal procedure for evaluating pesticides requested by other governments as proposed in the Federal Register on December 26, 1977 and promulgated on May 12, 1978.

INTRODUCTION

This policy determination provides guidance concerning AID's new pest management policy and the promotion of an effective long-term pesticide management program. The Agency recognizes that the proper selection and use of pesticides can contribute to increased agricultural productivity and improved public health. The proper management of pesticide use is also a prerequisite to the development and implementation of integrated pest management programs which avoid the sole reliance upon pesticides by employing a wide range of biological, cultural, mechanical, and chemical techniques to hold pests below damaging economic levels while offering maximum protection to the environment.

BACKGROUND

Since the early 1950s, AID and its predecessor agencies have provided assistance to less developed countries which has included the supply of pesticides and technical assistance in their use. Such assistance has been provided for three basic purposes:

- (1) The protection of human health, primarily the control of insect vectors of malaria and other vector-transmitted diseases.

- (2) The protection of food crops through the management or control of pests which reduce crop yields or cause post-harvest food losses.
- (3) The protection of livestock through the control of harmful insects and related pests either directly or through transmission of an etiologic agent.

In working towards these purposes, AID has been governed by several important concerns: the protection of public health and safety; the preservation of environmental quality; and the avoidance of adverse impacts on the host country and neighboring nations.

Since 1971 AID has provided training and direct technical assistance for the planning and implementing of ecologically and environmentally sound integrated pest management systems for the control of agricultural pests and diseases. Such training has been accomplished by bringing individuals from less developed countries to the United States, and/or by using U.S. experts within the recipient country.

AID's experience with pest management programs has demonstrated: (1) that pesticides frequently provide only immediate short-term solutions to problems of crop protection and

and human health, and that a heavy reliance on chemical pesticides often results in unintended adverse effects; (2) that many less developed nations currently do not have an adequate pest management infrastructure (in particular—qualified personnel and facilities) for the effective regulation, control, handling, and distribution of pesticides; (3) that AID could not invariably expect less developed countries to accept U.S. environmental concepts or pesticide policies when the latter conflict with their own national policies and priorities; (4) that a large increase in the demand for pesticides in developing countries is likely in the near future, and that many of these countries have the capability to acquire pesticides directly from U.S. manufacturers and other countries without AID financial assistance and the type of control which accompanies AID-financed pesticides; and (5) that it will be necessary to continue use of pesticides in malaria and other vector-borne disease control programs until supplementary and alternative methods are developed.

These findings suggest that the best strategy for AID to follow is to de-emphasize the sole use of pesticides in pest management programs and to concentrate the Agency's effort in an integrated approach utilizing all available pest management tools. In this regard, AID will seek to reduce dependence on pesticides by encouraging the use of currently available supplementary methods and will continue to take the initiative in the development of new alternatives through support of

research and field tests. In bilateral support programs for malaria control, AID will urge the use of an integrated approach. AID also realizes the importance of a continued commitment to the developing countries on pest control programs in order to be an influential factor in increasing their ability to manage pests in an environmentally sound manner.

POLICY GUIDELINES

In full consideration of the above factors, it is AID policy:

- (1) To establish wherever possible, programs aimed at assisting developing countries in designing and operating economically and environmentally sound integrated pest management systems and procedures in which pesticides will be used only when necessary.
- (2) To help develop infrastructures of developing countries for pest and pesticides management.
- (3) To exert a greater degree of international leadership by communicating U.S. policies and experience on pest control and pesticide problems to other nations and international organizations.

- (4) To discourage requests for pesticides unless they are to be used in economically and environmentally sound integrated pest management systems.
- (5) To promote the use of available supplementary methods of vector control as well as development of new and improved supplementary or alternative methods which do not depend on the use of persistent pesticides, including such methods as source reduction, water management, larviciding, and biological control.

To implement this policy, AID:

- (a) Has discontinued the financing of pesticides on a non-project basis under the commodity import program, except in emergencies and cases of compelling circumstances. Pesticides have been eliminated from the list of commodities automatically eligible for AID financing. Requests for the use of pesticides as part of projects will be reviewed on a project-by-project basis and a separate section included in the initial environmental examination of the project evaluating the risks and benefits of the proposed pesticide use. Exceptions to this requirement may be granted for research projects, projects undertaken under

emergency conditions, and projects to which AID is minor contributor to a multidonor effort.

(b) Will increase the availability of U.S. technical staff and funding of technical and training assistance, within the limitations of available resources. Examples of such assistance include:

- Establishment, operation, evaluation, and improvement of developing countries' pesticide regulatory systems.
- Establishment, operation, evaluation, and improvement of integrated pest management systems.
- Development, adoption, and continuing review of pesticide quality standards and establishment or improvement of facilities and procedures to monitor and enforce them.
- Strengthening of cooperation between the Ministries of Health and Agriculture and any other Ministries which may be concerned with the regulation and use of pesticides at the national level with particular emphasis on training, technical assistance, and problems of mutual concern.
- Strengthening of less developed countries' capabilities to use sound environmental planning

and monitoring as an integral part of their crop protection and public health programs and policies.

— Monitoring of human health and environmental effects of pesticides, as well as management of their proper use.

— Collection of data on use, efficacy, and safety of pesticides.

(c) Give special consideration in the Agency's research projects to the problems encountered by small farmers.

Such research might include:

— Development of integrated pest management programs for basic food crops utilizing cultural, physical and mechanical control methods to the maximum extent possible, and employing chemical pesticides only when absolutely necessary.

— Development of non-chemical methods for pest control such as the use of sex attractants, antifeeding compounds, juvenile hormones, and micro-organisms pathogenic to pests.

— Development of pesticide formulations which are not readily absorbed through the skin.

— Development of pesticide containers and a pesticide container handling system to meet the

needs of small farm pesticide users in less developed countries.

— Development of alternative disease control methods which do not focus on vector control, such as malaria immunization and schistosomocidal drugs.

(d) Continually upgrade Agency knowledge and expertise regarding pesticides and alternate methods of pest control through effective linkage with outside sources of expertise, and internal training programs.

XII. THE ROLE OF THE LEGAL ADVISOR

AID Legal advisors can play a critical and constructive role during the design of a project. The following paragraphs outline this role and illustrate how an AID lawyer looks at some of the issues inherent in each project paper. The attached paper on 611(a) describes the history of this section of the Foreign Assistance Act, what it means for project design, and how to meet to requirements.

To avoid delays during the review of a project paper AID legal requirements must be fulfilled completely. The AID legal advisors are available to assist the design officer in fulfilling these requirements. Please use them.

1. Makes responsible offices aware of certain legislative and regulatory constraints within which projects are to be designed:

- (a) "New Directions";
- (b) Legal proscriptions like aid to military;
- (c) 611 (see attachment on Section 611(a) Application and Requirements); and
- (d) Environment.

2. PID stage -

(a) Reviews the PID and tries to identify certain issues which might be addressed at PP design stage:

(i) 110(a) - is the contribution of the host government legitimate (a reasonable attribution of costs to the project);

*(ii) environmental - review IEE, advise on its sufficiency and whether it can be handled by more careful PP design, e.g., including environmentalist on design team or, in case of pilot activity, including, as part of TA provide, and environmentalist;

*(iii) procurement - advise on necessity for divers or special requirements for certain commodities (drugs, data processing equipment); and

* - In collaboration with other specialists

(b)^{1/} Initial judgement on technical and administrative feasibility of project. If, for e.g., implementation proposes to put a heavy burden on host government human and physical resources; (1) its capability to carry it out should be examined (2) re-orientation of project towards greater institution building should be considered.

3. PP Design - If work on the PID is adequate this should be a follow up of actions taken, recommended at that time - get into greater detail with PP team on implementation planning:

- Contracting and how it will be done;
- Allocation of contributions (e.g., design services financed by host country, construction by U.S.);
- 611 - more intensive assistance (work plans, training plans discussed);
- if necessary, assistance in intergrating environmental assessment into design (or other environmental considerations); and
- review work on waivers

4. Project Implementation:

- (a) Draft approve contracts;
- (b) Draft review project agreements;
- (c) Draft review PIL; and
- (d) Handle the hold gamut of incidental problems which undoubtedly arise -
 - OPEX issues
 - ProAg amendments
 - Switching funds

^{1/} - This, of course, is part of the 611 problem. Guidance should be offered as to potential 611 issues and alternatives for addressing these in PP design.

5. Some of the more important questions an A.I.D. lawyer asks when reviewing a Project Paper are as follows:

(a) Who or what is the proposed Grantee or Borrower? Does the proposed Grantee or Borrower have the legal authority to accept the grant or loan?

(b) Is the proposed Grantee or Borrower ineligible for assistance? (Section 620(B) Prohibitions of the FAA)?

(c) Is the funding source suggested appropriate for this type of activity?

(d) Does the host country contribution to the project amount to at least 25% of the costs of the entire program (Section 110(a) of the FAA)? Are the items making up the contribution adequately identified and are they properly included as a host country contribution?

(e) Is the technical and financial planning adequate for this project and its components (Section 611(a) of the FAA)?

(f) Does this project address the role of women? (Section 113 of FAA)? Is it a project which tends to integrate women into the national economies of the recipient country?

(g) Does the project propose procurement from generally authorized sources? (Sections 604(a) and 636(i) of the FAA)? Are there waiver requests? Is the justification adequate (Handbook 13)?

(h) Have local currency costs been identified and justified?

(i) Are contracts for construction and other services to be obtained on a competitive basis? (Section 611(c), Handbook 11, AID/PRs)? If not, why not? Is there justification for noncompetitive procurement and is the justification adequate?

(j) If the project is a capital assistance project estimated to cost in excess of \$1,000,000, has the Mission Director provided a 611(e) certification?

(k) Does the documentation show that the project is in compliance with A.I.D. Regulation 16? Was there an IEE? Was there an EA? What did it recommend? Does the PP adequately deal with the recommendations and issues raised in the IEE or EA?

(l) Are the proposed conditions precedent and covenants adequate to ensure smooth implementation of the project and to protect A.I.D.'s interests peculiar to this activity?

(m) Has the use of fixed amount reimbursement been considered? If so, are the mechanics of the system adequately expressed?

(n) Does the activity conform with the Congressional Presentation?

SECTION 611(a) (1) - APPLICATION AND REQUIREMENTS

This memorandum discusses the requirements of Section 611(a)(1) of the Foreign Assistance Act of 1961, as amended, (the "Act") in an effort to eliminate some of the mystery, myth and frustration that has existed both in field posts and in AID/W regarding this provision. In doing so, this memorandum outlines the legislative history of Section 611(a)(1), the objectives it is intended to accomplish, some common misconceptions regarding the provision, and certain types of projects that have been particularly troublesome.

A. Section 611(a)(1) and Its Legislative History

Section 611(a)(1) of the Act provides as follows (as revised by Section 102(g)(2)(D) of the International Development and Food Assistance Act of 1978 ("1978 Authorization Act")):

"Sec. 611. Completion of Plans and Cost Estimates. -

(a) No agreement or grant which constitutes an obligation of the United States Government in excess of \$100,000 under section 1311 of the Supplemental Appropriation Act, 1955, as amended, . . . shall be made for any assistance authorized under Chapter 1 of Part I, Title II of Chapter 2 of Part I or Chapter 4 of Part II -

(1) if such agreement or grant requires substantive technical or financial planning, until engineering, financial, and other plans necessary to carry out such assistance, and a reasonably firm estimate of the cost to the United States Government of providing such assistance, have been completed"

By its terms, Section 611(a) is applicable to:

1. Development assistance functional accounts of Chapter 1 of Part I of the Act:

Section 103 - Food and Nutrition
Section 104 - Population Planning and Health
Section 105 - Education and Human Resources
Section 106 - Technical Assistance, Energy
Research, Reconstruction and
Selected Development Problems
Section 121 - Sahel Development Program

2. Chapter 2 of Part I - which does not contain appropriation authorizations used by AFR.

3. Chapter 4 of Part II of the Act -

Section 532 - Economic Support Fund (formerly Security Supporting Assistance)

Section 533 - Southern Africa Program

Section 611(a) is not applicable to the following appropriation accounts sometimes used by AFR:

Section 451 - Contingency Fund

Section 492 - International Disaster Assistance

Section 494A - Famine and Disaster Relief to Drought Stricken African Nations

Section 495F - Assistance to African Refugees

Section 496 - Assistance to Portugal and Portuguese Colonies in Africa Gaining Independence

Section 121 of the 1978 Authorization Act - Locust Plague Control in Africa

Section 611(a)(1) has a simple requirement. It requires A.I.D. not to obligate or commit funds to provide assistance until plans necessary to carry out the assistance and to provide a reasonably firm estimate of cost to the U.S. are completed. The reason for the requirement of a reasonably firm cost estimate is apparent. It is intended to ensure that enough funds are committed to provide the assistance (so a road under construction, for example, does not stop short of the desired terminal because of a shortage of funds), and also to ensure that not more than the necessary amount of funds are committed to the project so that funds are not unnecessarily tied up.

The requirement of a plan to provide the assistance prior to obligation of funds ensures that there is reasonable certainty before funds are committed that the assistance intended can be delivered. It also ensures that the commitments of each of the parties (U.S., Host Country and others) required for the success of the project are planned, understood and reflected in the loan, grant or other agreement obligating the funds.

It is apparent that the requirements of Section 611(a)(1) are merely basic principles for the prudent management of money. An examination of the legislative history of Section 611(a) discloses the reason Congress believed it necessary to legislate these basic principles. Commenting upon the need for Section 611(a) in 1958 (then Section 517(a) of the Mutual Security Act), the House Foreign Affairs Committee reported as follows:

"Funds are obligated, and consequently may be carried forward from year to year until expended, on the basis of an agreement with a foreign government even though such agreement is not supported by construction of procurement contracts. The result is that funds are appropriated by the Congress to build factories and for other projects 2 or 3 years, in a number of cases, before the engineering plans . . . are completed.

The committee recognizes the inevitability of delays in negotiating and planning projects with foreign governments, particularly with undeveloped governments. It fully approves the desire of our officials to proceed with caution and to delay actual expenditure of funds until all problems have been worked out. It should not be necessary, however, to appropriate funds until the process of planning, organization and taking the necessary legal and legislative action in the recipient country is further advanced than is the present practice.

It [Section 517 (a)] should in the future prevent the International Cooperation Administration [a predecessor of A.I.D.] from requesting appropriation of funds or from obligating funds until our own officials and the recipient country have reached a firm decision as to what is contemplated jointly to be done: when, where, and at what cost.

The Committee recognizes the need for careful planning for overseas projects and the inevitability of delays in negotiation and in action by foreign governments. It is not suggested that surveys, discussions and engineering work which require 3 years to complete should be rushed through in a year. This section is intended, however, to encourage the ICA to carry forward negotiations with foreign governments, to evaluate the readiness of the recipient government to put up the necessary funds, to take appropriate action for such purposes as acquiring rights of way and to encourage both ICA and the government to do sufficient planning and engineering work so as to be informed of all major problems likely to be encountered before United States funds are committed for financing any project.

These provisions are intended to require the ICA to delay the obligation of funds until it has reached a decision that each project has been adequately planned and that the foreseeable obstacles which are to be encountered can be overcome." (Emphasis added.)

Introducing Section 517(a) on the floor of the House, the Chairman of the Foreign Affairs Committee described one of the ineffective ICA projects that led to Section 517(a):

"The Committee has had occasion to examine a project for constructing a sawmill on the Island of Taiwan: \$150,000 of fiscal year 1956 funds have been and remain obligated for this sawmill, together with \$457,000 of 1957 funds, making a total of \$550,000 for this purpose. In addition a total of \$325,000 of fiscal year 1957 and fiscal year 1958 funds are also obligated for contract services in connection with getting this sawmill into operation. Nevertheless, contracts for the building of the sawmill have not yet been awarded and one of the justifications for contract services referred to is to determine just what sort of sawmill should be built."

The Chairman explained the purpose of Section 517(a) as follows:

"The process of obligating funds for projects has been made a more serious step. This amendment . . . has been termed the most constructive proposal to come out of our committee. Obligation of funds is to be made only when preliminary studies as to feasibility have been completed and only when the preliminaries required of a recipient country are within sight of completion This amendment, while undoubtedly complicating the tasks of the administrators, should do much to help avert such errors in judgement as have accounted for much of the adverse publicity of the past 2 years.

Under normal United States Government procedures, appropriated funds which have not been obligated lapse and are returned to the Treasury at the end of the fiscal year. Obligated funds may be carried forward. Obligations normally involve contracts with outside firms for goods to be delivered, real property to be purchased or leased, or work or services to be performed, and so forth.

The ICA is permitted to obligate funds and thus to carry them forward into succeeding fiscal years on the basis of an agreement with a foreign country, that is, the ICA and the foreign country can agree that a power dam shall be constructed and the funds for this purpose are considered obligated."

B. Purpose of the Requirement

It is clear from a review of the legislative history of Section 611(a) that its purpose is to prevent the premature obligation of funds for a project. Do not commit funds, by execution of a project agreement, until adequate planning is completed to implement the project. The requirement was imposed as a legal counterbalance to the pressure applied to an organization like A.I.D. in dealing with foreign governments and facing obligational targets created by fiscal, administrative or political constraints. It acknowledges that the assistance purpose is not achieved when funds are obligated, but rather when goods and services are provided and funds are disbursed.

If funds are committed for implementation of a project before planning is completed, the funds are tied up, unable to be used elsewhere, during the time planning is being completed. Other uses of such funds, however, might be more pressing or useful. Congress has indicated its intention that, when necessary, funds should be obligated for planning, and when implementation planning is complete, funds may be obligated for implementation. Certainly, the goods and services required for implementation, which is the real provision of assistance, cannot be provided until the planning is completed because otherwise the goods and services needed would not be known.

C. Nature of Planning Required

As noted above, Congress was concerned about the delays that occur when funds are obligated for a general purpose, such as a sawmill for example, without completing enough preliminary planning to know the kind of sawmill required, where and how it would be constructed, the problems involved in constructing it, the manner in which those problems would be overcome and the estimated cost. Having planned these aspects of providing the assistance intended prior to the time funds are obligated to construct the sawmill would, Congress expected, accelerate implementation and eliminate a pipeline.

The requirement of Section 611(a) is not to complete every detail of planning before funds are obligated but to provide enough preliminary planning to identify what is being provided as a piece of assistance, the obstacles to providing it that may be foreseen, how it will be provided (the kinds and amounts of goods and services) and a reasonably firm estimate of the cost. It does not require detailed plans, specifications and drawings that may be needed at a later date in order to issue an invitation for bid to contractors. The preliminary planning described above would be adequate to satisfy Section 611(a) and permit the obligation of funds; the detailed plans and specifications could be prepared after obligation of funds for the construction but before disbursement of funds for that purpose.

Nor does Section 611(a)(1) require an immutable plan etched in stone. It requires planning of the starting point of what each component of a project is and how it will be done. Development projects that are implemented over a three to five year period require some flexibility in implementation to respond to changes in circumstances, new perceptions and information obtained in implementation, provided that the project stays within the major features approved by the authorizing officer. Better designed projects include a mechanism to gather information during implementation which is fed back into a decision making structure that can make adaptations and refinements in the components of a project as it proceeds in implementation.

D. Common Misconceptions of Section 611(a)(1)

1. Technical Assistance vs. Capital Assistance Projects:

One of the most common misconceptions regarding the application of Section 611(a)(1) is that it applies only to capital projects, or to capital components of projects. Section 611(a)(1) applied to technical assistance as well as to capital assistance projects. It applies to each component of a project when a project has several components within an umbrella such as, for example, an integrated rural development project with interventions in crop production, credit, road building, primary education and other training.

When Section 611(a)(1) was first enacted in 1958 as Section 517(a) of the Mutual Security Act, the Executive Branch formally requested the Conference Committee to revise proposed Section 517 to apply expressly only to "construction projects costing in excess of \$1,000,000". That request was rejected.

2. Section 611(a) Applies Only to Components or Structures Costing More than \$100,000:

It is sometimes asserted that Section 611(a) planning need not be completed for a component of a project or for a structure constructed in the project if it is valued at less than \$100,000. The assertion is incorrect. Section 611(a) provides that "no agreement or grant which constitutes an obligation of the United States Government in excess of \$100,000 . . . shall be made" unless the preliminary planning is completed. Generally, an obligation occurs upon execution of project agreement or amendment and its amendments exceeds \$100,000, Section 611(a)(1) is applicable to each component of assistance being financed by funds obligated through that agreement, and its amendments

3. Mission Director's Certification:

It is generally believed that Section 611(a)(1) may be considered satisfied if the Mission Director certifies that it has been satisfied. This belief is not correct. Section 611(a)(1) does not require a certification regarding its satisfaction; it is a judgement generally made by the officer authorizing the project based upon the advice provided by such officer's staff including the Mission Director and the others involved in the design, review and approval of projects. When a project or component requires technical expertise for effective review, such as an engineering opinion regarding construction components, advice provided by technicians is afforded considerable weight.

The belief that a Mission Director's certificate is required under Section 611(a) is probably caused by confusing the requirement of Section 611(a) with that of Section 611(e). That latter provision requires, with respect to capital projects costing more than \$1,000,000, that the principal A.I.D. officer in a country certify regarding the capability of the country to operate and maintain the capital project. This Section 611(e) certification is generally provided upon a Mission Director's receiving engineering or other appropriate advice.

4. Satisfaction of Section 611(a) as a Condition Precedent to Disbursement:

It is frequently asserted that funds may be obligated in a project agreement before the Section 611(a) planning requirement is satisfied as long as it is satisfied before funds are disbursed under the agreement. A careful reading of Section 611(a) clearly indicates that that assertion is incorrect. It provides that no agreement or grant constituting an obligation of the U.S. costing more than \$100,000 may be made until planning is completed. In fact, the legislative history of Section 611(a) quoted above clearly indicates obligating funds before the preliminary planning is completed. In fact, the legislative history of Section 611(a) quoted above clearly indicates obligating funds before the preliminary planning is completed, and doing it before funds are disbursed, is exactly the practice Congress intended to prevent through that section.

This misunderstanding of Section 611(a) is probably caused by confusing the preliminary planning required by that section to support the obligation of funds with the detailed planning that is frequently required as a condition precedent to first disbursement in construction projects.

Section 611(a) requires preliminary planning that identifies what is being provided (in general that kinds and amounts of goods and services required) and estimated cost. This would involve, for example, a decision of the kind of building required, its size, the number and types of rooms, an estimate of the kinds and

amount of materials, equipment and personnel needed. This degree of planning satisfies Section 611(a) and permits the obligation of funds.

It would not, however, provide enough information to serve as a basis for a construction contract obtained through competition on the basis of price. Detailed plans, specifications and drawings are required for a construction contract to ensure that the contractor will provide what is desired. They are required in competition on the basis of price to be fair to the competitors and to ensure that all are bidding on the same basis.

The preliminary planning is required before obligation and satisfies Section 611(a). The detailed planning is required after obligation and before disbursement and has nothing to do with Section 611(a).

5. Section 611(a) is Inconsistent with the Collaborative Style of Development:

It is sometimes claimed that the preliminary planning requirement of this provision is inconsistent with the collaborative style of development. This simply is not true. The requirement in no way prevents the host country of the beneficiaries of a project from participating in the design of a project. In fact, one of the stated objectives of the requirement is to ensure that at the time funds are committed, the parties to the loan or grant agreement clearly understand what is required of each of them for its implementation.

Funds need not be tied up through obligation in order to induce a host country or its people to collaborate in the design or planning of a project as is frequently claimed by designers. Section 611(a) merely requires this collaboration with the host country and its people before A.I.D. commits funds to implement the project. It permits the obligation of funds to plan the project, including substantial amounts if needed to achieve collaboration; it prohibits the obligation of funds to implement the project before it is ready for implementation.

It is often argued that A.I.D.'s response time in actually providing funds is so long that it discourages collaboration and the participation of project beneficiaries. The expectations of project beneficiaries are raised when their views are solicited regarding a project and then dashed by the length of time it takes to put the project on stream.

That delay, however, is not caused by Section 611(a). It may have been caused by the PID, PRP and PP requirement that was keyed to A.I.D.'s schedule for Congressional

Presentations, and A.I.D.'s process for design, review and approval of projects. The project documentation process has been substantially revised, being limited to a PID and PP.

Project approval authority is being delegated to the field. All of these changes should increase A.I.D.'s response time to projects that are collaboratively designed. Section 611(a) was not a hinderance to that objective in the past and will not be in the future.

E. Incremental Satisfaction of Section 611(a)

The requirement of Section 611(a), as a matter of law, is that preliminary planning and cost estimates be completed for an activity before funds are obligated to finance implementation of that activity. Obligation occurs at the time an agreement, or amendment, committing the funds is executed. In most grant financed projects, funds are obligated incrementally on an annual basis rather than for the life of a project. From a strictly legal point of view, Section 611(a) may be satisfied in the same manner as funds are obligated. Its requirement of preliminary planning may be satisfied annually on an incremental basis as funds are obligated incrementally on an annual basis rather than for the life of a project.

When satisfied in this manner, it must precede the annual obligation of funds, and it must relate to the entire amount of funds being obligated each year.

This technique can work effectively when a project contemplates an annual work plan to be developed in collaboration with the host country. The annual work plan can be completed and funds obligated to finance it. Moreover, the amount planned for a year need not be obligated or committed in a lump sum, but may be tranched through the year and obligated to finance specific activities as they are planned.

Agency policy goes beyond the legal requirement and requires the preliminary planning and cost estimates to be completed, as discussed below, before a project is authorized. There are, however, certain types of projects also discussed below that may be appropriate for the incremental satisfaction of Section 611(a).

Finally, there is no legal requirement that the Section 611(a) planning be approved in Washington - or by the officer approving the project. In instances in which it is appropriate to satisfy Section 611(a) on an incremental basis, it may also be appropriate for the authorizing officer to decide that the determination that Section 611(a) has been satisfied should be made in the field. This assumes, of course, that the field will be as diligent in reviewing the preliminary planning, and will bring together the personnel (engineers, lawyers, etc.) who are needed to make a sound judgement regarding whether the requirement is satisfied.

F. Problem Areas in Satisfaction of Section 611(a):

Experience gained in the past few years has shown that there are several problem areas in complying with Section 611(a) that deserve individual attention. Except for construction, most problems arise when it is desired to finance activities that are, to a greater or lesser extent, not identified at the time the project is designed. As noted above, however, the requirement of Section 611(a) is not to complete every detail of planning prior to obligation of funds, but to provide enough general planning to identify what is being provided as a piece of assistance, how it will be provided and a reasonably firm estimate of the cost. When a project includes components that are not even identified at the time of obligation, it cannot be said that such components are planned within the meaning of Section 611(a)(1).

1. Construction Activities:

Preliminary planning and cost estimates must be completed for all construction activities to be financed by A.I.D., irrespective of the cost of such activities, if the amount obligated by A.I.D. for the project exceeds \$100,000.

A rule of reason must obtain, however, in applying this requirement. Obviously, the preliminary planning needed for a \$10 million canal will be more sophisticated than for a \$20,000 three room school house. For such school house, a decision regarding its site, size, floor plan indicating the number of rooms and knowledge of the material and labor required and available is probably enough. The requirement of Section 611(a) is that the planning be adequate and the cost estimates reasonably firm. Since they have the technical expertise, A.I.D. engineers provide advice regarding whether the planning is adequate to provide a reasonably firm estimate of the cost.

In addition, when A.I.D. intends to finance a series of structures, such as a series of schools or a series of health posts, etc., it is possible to have preliminary planning and cost estimates of a model or standard structure. If the structures are simple and the host government agrees that the model or standard will be used in each case, Section 611(a) may be considered satisfied.

2. Rural Roads:

Section 611(a) has sometimes been considered a problem when A.I.D. is planning to finance a rural road network and the actual stretches of road to be constructed or improved are not identified prior to obligation of funds. This lack of identification might be caused by the great number of roads to be improved, and

the need to obligate funds for equipment and technical personnel with long lead times, or because project planners desire the project beneficiaries to be involved in determining priorities and to make actual selection of roads. (Of course, such selection and prioritization can occur before funds are obligated for construction.)

In these cases, although the actual stretches of roads to be constructed are not identified, sufficient planning is completed to identify the kinds of roads that will be built; the design standards for the roads; the construction standards; the terrain in which they will be built; who will do the detailed design, if any, and the construction; the amount of skilled and unskilled labor required (and where they will come from and training required); and the amounts and types of equipment needed.

This will permit a reasonably firm estimate of cost. This degree of planning will support the obligation of funds and will permit contracting for goods and services needed even though the actual stretches of road to be constructed are unidentified at the time funds are obligated. Criteria for the selection of actual roads are developed to be applied in a way that will give the people in the project area an opportunity to participate in determining local priorities for construction of roads.

This technique may also be applied to construction of other sorts of projects such as schools, health posts, etc. that are small and repetitive. Notwithstanding the lack of identification, prior to obligation, of actual stretches of road to be constructed, the developmental objective of the financing does not require any specific road to be built. There is little or no danger of pipeline being created in such projects for the following reasons:

- (a) There generally is a great number of roads that could be constructed or improved to meet the purpose of the project.
- (b) Since design and construction standards are quite simple, there would be no delay in implementing construction after a location has been selected.
- (c) The number of roads to be constructed or improved is so large and the cost of each generally so small that it is impracticable to identify them all and do a feasibility study for all prior to obligation.
- (d) Since no particular road, but a network of roads is intended, if difficulty or delay is encountered in the selection of one road, another involving substantially the same development benefits could be substituted. Since the roads constructed are elementary feeder or penetration roads, final design could be completed quickly enough so that no real delay or pipeline would be encountered.

Essentially, the simple nature and the great number of small roads to be provided obviated the need to do a feasibility study with respect to each little road prior to obligation of funds.

3. Intermediate Credit Institutions:

There are projects that are intended to address the lack of capital as a perceived constraint to development. The purpose of such projects is to provide loan funds to small borrowers for general purposes, such as agricultural inputs, appropriate technology, etc. and to institutionalize the availability of credit rather than to finance any specific small activities.

In such cases, the preliminary planning required under Section 611(a) will not relate to the specific uses to which loan funds will be put, such as vegetable gardening, motorized mills, chicken farms, etc. Rather Section 611(a) planning will relate to how the availability of credit will be institutionalized on a continuing basis. It will involve an examination of the demand for credit; the administrative structure through which it will be provided and its effectiveness; the administrative cost in providing the credit; the anticipated default rate; the mechanism and criteria for review and approval of specific loans; and the imposition of credit terms (maturity and interest rate) adequate to cover the cost of administration of the credit, inflation, and the projected default rate so that the credit fund will not be diminished by those elements and will revolve on a continuing basis. The purpose of the project is not to finance specific activities, but rather credit, so the specific activities need not be identified and planned prior to obligation of funds in order to satisfy Section 611(a).

4. Other Funds for Small Unidentified Activities:

The most troublesome projects with respect to Section 611(a) have involved funds to finance unidentified sub-projects when the purpose of the project is not to institutionalize the availability of credit but to finance the subprojects themselves. This occurs when designers desire to involve project beneficiaries in design and to respond on an accelerated basis to constraints perceived by project beneficiaries.

Some of these problems were aggravated by the PID, PRP, PP approval process which required approximately 18 months for completion. These considerations caused designers to include in some projects funds to finance unidentified small sub-projects that would be identified and planned in implementation. They intended to obligate funds for implementation before planning of the subprojects was completed, the very action Section 611(a)(1) was intended by Congress to prevent.

Some argued that since the activities are small and the amount committed for them was likewise small, such funds could be established. However, the same principles of law and management apply irrespective of the size or amount of the subproject, and the only de minimis permitted under Section 611(a) relates to the total amount obligated. If the amount obligated is or aggregates \$100,000 or more, the requirements of Section 611(a) are applicable.

The interests of designers to involve the people in decision-making and to respond promptly may be accommodated with the requirement of Section 611(a) for identification and planning. This may be accomplished even more easily now with recent changes that have been made in AFR and in the project approval process.

- (a) The PRP has been deleted from the review process, and the time between identification of a problem in an approved PID and approval of a project is only the time that it takes to design a project that complies with policy and law and present it in a PP (assuming the availability of funds).
- (b) Field posts have the authority to approve activities up to \$500,000, and higher amounts are anticipated.
- (c) Staffing missions rather than the REDSO's, with permanent design people will permit closer contact over a prolonged period with potential project beneficiaries to determine their interests and assistance in the design of a project for presentation in a PP rather than waiting for implementation to learn about their perceptions and desires.
- (d) In certain cases, projects may be approved prior to satisfaction of Section 611(a) for each component of the project and funds obligated after this planning is completed. In these cases a project paper would identify in general what was intended to be accomplished in a project and provide enough information and analyses to justify approval of funding. Allotment of funds may be made as described in the approved PP. The field may then obligate funds when particular activities or types of activities are identified and planned.

The manner in which Section 611(a) is satisfied with respect to rural road project described above provides a useful lesson in how projects with unidentified subprojects may be handled. In rural road projects, the actual stretches of road to be constructed or improved are not identified and will not be identified prior to the obligation of funds. However, sufficient planning is completed, as

noted above, to permit a reasonably firm estimate of cost. This degree of planning will support the obligation of funds and will permit contracting for the goods and services needed even though the actual stretches of road that will be constructed are unidentified at the time funds are obligated. Criteria for the selection of actual roads are developed to be applied in a way that will give the people in the project area an opportunity to participate in determining local priorities for construction of the roads.

This must be contrasted with projects that will finance unidentified subprojects. It is often stated that criteria will be developed for selecting activities and funds will be obligated against these criteria that will permit the people to participate in selecting activities and a prompt response. (It should first be noted that designers are not prevented from determining what the people want in terms of agricultural production technologies, appropriate technology and enterprise development before a PP is submitted.) The deficiency in these projects may be understood by comparing them with the road projects planning above.

With respect to roads, we know that roads will be constructed, the kinds of roads, the equipment, materials and people needed and the criteria that will be used to select where the roads will be placed. In fund projects, we do not yet know what the subprojects will be. Much more is left to criteria, and contracts cannot be let for equipment, materials, or people because the types and amounts of these things needed has not yet been planned. Section 611(a) has not been satisfied.

Two techniques have been used to finance projects involving unidentified subprojects and to comply with Section 611(a)(1). One is patterned on the technique used for rural road programs and the other involves obligation of funds serialim as subprojects are identified.

The first involves identification and planning, in collaboration with the host country and project beneficiaries, of a number of kinds of activities that may be financed from the fund. The kinds of activities could be based upon the knowledge of the interests and constraints of project beneficiaries learned in the design stage. The activities could involve such kinds of subprojects as vegetable gardening, brick kilns, motorized mills, etc. The PF would describe a series of activities in which the people are interested and would plan how these activities may be provided (the goods and services required). This would not be an illustrative list of activities but would be the actual list of activities offered to project beneficiaries for selection as the starting point of the project.

This would satisfy Section 611(a) (assuming that a project structure is also designed for reaching the people with these activities) in the same manner as rural road programs. The list of activities should be based upon the perceived needs and preferences of the people in the project areas. It should be adequate to permit disbursement of funds obligated for this purpose in a timely manner.

When this starting point is identified and planned, the entire amount authorized for the fund may be obligated. In addition, to provide flexibility during the implementation, criteria may be designed in keeping with the purpose of the fund for identifying, planning and approving (in the field) new kinds of activities that can be added to the original list of approved activities during implementation in order to refine the project and to respond to changed circumstances and information learned in implementation.

Second, as an alternative or in conjunction with the first, funds may be obligated for specific activities individually, or in a group, as they are identified and planned. Funds may be obligated initially for technical assistance, and training where needed, in order to provide the project management structure. Funds may be allotted to the field for the subprojects after project approval, but these funds would not be obligated until specific activities are identified and planned in the field in accordance with criteria approved in the PP. These obligations may be made individually as subprojects are identified and planned, or they may be grouped as a number of subprojects are identified and planned. Some projects have involved annual work plans, developed in collaboration with the host country, which identify and plan subprojects for the next year, and funds are obligated annually in accordance with that work plan.

These techniques have proved successful in balancing the interest of involving project beneficiaries in design, responding promptly to perceived needs, and satisfying the Section 611(a) requirement of prudent management.

B. Satisfaction of Section 611(a) Before Authorization

As noted above, there is no legal requirement that Section 611(a)(1) be satisfied for each component of a project before the project is authorized for financing. It should be realized, however, that it is A.I.D. policy to do so except in the unique situations described above. Section 611(a) identification, planning, and cost estimates are important in preparing project budgets and other analyses required for project approval.

Without identification of a piece of assistance and planning of how it will be provided, it is difficult to have confidence in the budget of a project presented for approval.

Moreover, the economic analysis of a project requires that the elements of a project be identified and planned so that cost estimates may be reasonably firm, whether the economic analysis involves consideration of costs and benefits or cost effectiveness. Presumably, an official authorizing a project will do so on the basis of the development return on the investment outweighing the cost of the investment, and the cost cannot be determined with any confidence unless it is known that it is being provided and how to serve as the basis of cost estimates.

Although it is difficult to formulate a general rule with regard to when Section 611(a) planning may not be fully completed prior to authorization, it seems appropriate in the instance in which a fund is being used to finance a large number of small activities.

XIII. ENGINEERING FEASIBILITY

A. General Policy Statement

Section 611(a) of the FAA requires, prior to obligation, adequate planning and a reasonable firm estimate of the cost for any projects costing in excess of \$100,000. The total project cost is the criteria for determining if a project is subject to Section 611(a), and not solely the construction component. It is AID policy that a direct hire engineer shall make an evaluation of each project as to the adequacy of engineering plans and cost estimates for any construction contemplated for a project in the above category.

Section 611(b) of the Foreign Assistance Act calls for a computation of benefits and costs for any water or related land resource construction project. It is imperative to have a water resources engineer, an economist and other technicians, as appropriate, to prepare the benefit cost study. If the project is an agricultural project, then an agriculturalist will contribute information on projected yield increases and the economist should be an agricultural economist.

B. Discussion of Policy Statement

1. 611(a)

The engineer's responsibility for determining if the requirements of Section 611(a) have been met also involves an evaluation of the capability of the host country to design and construct the facility contemplated. There has to be a professional evaluation made of the following:

- (a) Does the government engineering organization in the host country have the capability to design the building or facility to be constructed?
- (b) Does the host country engineering organization have the capability to prepare the bid documents and supervise the award of the bids for construction?
- (c) Are there local construction firms in the country with the capability for constructing the facility to be built?

The engineer will often need to visit the site where the facility is to be constructed. Depending on what is to be built, the following questions, among others, might be asked:

- (a) What drainage problems will there be, if any, for any buildings to be built?
- (b) What is the bearing capacity of the soil?
- (c) If needed, is there adequate water and electricity? Access roads?
- (d) If a water reservoir is to be built, what soil type is there at the site? Is the soil suitable for building an earthen structure? Is the sub-soil suitable for holding water? Is there suitable arable land nearby for growing crops if the water is to be used for irrigation?
- (e) Are there topographic maps of the site? These are an absolute necessity for irrigation and water reservoir projects. They are also necessary for sites for a complex of buildings. Profiles and alignment maps are needed for canals, dams and roads.
- (f) If for construction of a road, has the rights-of-way been surveyed? What about borrow pits? Who owns the right-of-way?
- (g) Most projects requiring a large infrastructure will also require an organization for maintaining the project. Good examples are irrigation and road projects. What sort of operation and maintenance organization is there. What consideration has there been given to replacement?

These are only a few of the questions to be answered. In addition, the engineer needs to make an evaluation of the availability of building materials, such as sand and gravel at the site, and of cement, re-bar and hardware items in the market.

2. 611(b)

Meeting the requirements of 611(b) requires the coordinated efforts of a water resources engineer, an economist or, perhaps, an agricultural economist and other technicians as needed. They derive costs and evaluate the benefits from the project. The basis, or guide, for preparing the benefit/cost was updated by the Water Resources Council in 1973. The statutory checklist of Handbook 3, Chapter 5, paragraph A.4, asks the question:

If for water or water-related land resource construction, has the project met the standards and criteria as per the Principles and Standards for Planning Water and Related Land Resources dated October 25, 1973?

The Principles and Standards (P and S) were published in the Federal Register on September 10, 1973 in Volume 38, Number 174, Part III. They became effective on October 25, 1973. Application of the Principles and Standards is difficult for AID projects.

As an example, the P and S requires that "possible alternatives capable of application by various levels of government and by non-governmental interests should be studied". Obviously this does not apply to the average small water project in an LDC. Usually, there is one government organization capable of developing the potential project and only one possible use for the water, which is irrigation. Use the P and S as a guide and comply with it as much as possible. For integrated rural development projects, make sure that there is an economic evaluation of the "water and related land resource" part of the project that is separate and apart from the rest of the economic feasibility. Rely upon your water resources engineer to make a substantial contribution to this effort. You will also need the expert opinion of an agricultural technician to assist in determining increased yield as the result of irrigation. A copy of the P and S should be available in the engineering office supporting the mission.

Projects are reviewed in AID/W by an engineer to ensure that costs are reasonable and firm and that technical planning and design are adequate. They are reviewed by a lawyer to make sure that the statutory requirements have been met. If there is no statement in the project paper or in the technical annex to the effect that the construction plans and costs have been reviewed by an AID direct-hire engineer, then AID/W generally cables the Mission asking for a review of the plans by an AID engineer. This often delays authorization of the project proposal.

3. FAR

Some Missions have used the fixed amount reimbursement method of payment for project construction activities with the idea that it will not be necessary to meet the requirements of 611(a). The criteria for meeting the requirements of 611(a) are not affected by method of financing.

The purpose of Section 611(a) is to insure sound planning of project activities. The AID engineer has the training and experience to determine if the requirements of the section have been met as far as the construction components of the project are concerned. Do not overlook any of the engineering requirements in preparing Project Papers regardless of the cost of the project. Ask for engineering assistance if any construction is

contemplated. If the engineer on the PP team is not direct hire, be sure he is properly briefed by an experienced AID engineer. AID has had contract engineers on PP teams who have not been satisfactory, but usually this has been because he was not properly briefed as to what his job requirements were. Each PP team should have an AID direct hire engineer, but, unfortunately, REDSO offices have not been adequately staffed nor do most Missions in Africa have engineers on board at this time.

C. Recommendation

If we are going to have top quality Project Papers, we must improve the technical input. The technician must be involved from the beginning.

1. Involve all technicians from the inception of project planning. If possible, get the engineer's assistance before preparing the PID. Many projects have financial and technical difficulties because someone not competent to estimate construction costs and determine feasibility made decisions at the PID stage without consulting an engineer.

2. Project offices should encourage the technical members of the PP team to give him conservative estimates of conditions expected at the end of the project and realistic implementation plans.

3. The project officer must rely on the judgement of technical team members. Engineers recruited to fill positions for AID must have suitable experience to be considered for employment. It is generally accepted practice that engineers must have their professional license. Most AID engineers have from 10 to 20 years experience before being considered for employment although recently IDI engineers have been recruited who have less experience. Many of these young men have advanced degrees and have their engineering registration or have passed their engineer-in-training (EIT) exam. Engineering registration requires that the candidate for registration pass and EIT examination and have commensurate experience in his field, usually five years. This is the minimum requirement for registration.

The point of the above is that the engineer on the PP team is a man of considerable experience. He has work experience and training in the development of manageable, logical, organizational and/or implementation plans. Make use of his services. Engineers often feel that full advantage is not taken on their potential. They can be helpful and should be used to the full extent of their capabilities.

D. Types of Engineers

One last comment is appropriate. Engineers have different "types of training". There are three general fields of engineering. These are: mechanical, electrical and civil. The specialist engineer in these general categories runs the gamut of one's imagination. As an example, an agricultural engineer is interested and trained in solving engineering problems encountered in agriculture. There are several areas of interest in agricultural engineering. A civil engineer can specialize in structural design, highway design, water resources, or sanitary engineering. Asking a generalist in civil engineering to check the structural design of a bridge to cross the Nile, Niger, or Senegal rivers is frustrating to the engineer, frustrating to the questioner and non-productive. The general engineer should be able to examine the design and prepare a scope of work for a structural engineer. When your Mission engineer says he needs help, assist him in getting it. Don't limit your search to AID. AID/W has IQC contracts that are designed to allow us to hire the services of a specialist engineer.

XIV. ECONOMIC ISSUES IN PROJECT DESIGN

Due to A.I.D.'s specific goals and interests, the economic analysis associated with establishing project feasibility is often not exactly what is commonly understood as economic analysis by host country governments and other donors. As shown below, A.I.D.'s timeframes for project design and special mandate concerns will often require that the economic analysis for a proposed project be accomplished through innovative methods that do not always follow economic textbooks.

The Place of Economic Analysis in Project Design:
Overall economic analysis is but one of several measures of project feasibility that include technical, social, financial and environmental considerations. The exact role that the economic analysis will play will vary as a function of several parameters, including reliability of the data base, availability of research on the topic, the type of project under consideration and current A.I.D. orientations toward it.

A. Value of Economic Analysis, if Done Correctly

1. For A.I.D.:

- (a) Takes project analysis beyond the expository stage and permits a certain quantification of project worth.
- (b) Often firms up the abstract ideas proposed in design and permits reviewer to use those ideas more graphically.
- (c) Provides framework within which most aspects of a proposed project can be evaluated in a systematic manner. Is often the larger rallying point around which a multi-disciplinary approach can be built (e.g., cannot easily separate from (1) social: demographic data, level of project acceptance, possible regional integration, spread effects; and (2) technical: costing, properly adapted technology, environmental effect).
- (d) Provides baseline data for future evaluation.
- (e) Helps the Agency to avoid flagrantly political projects which represent a serious drain on limited national resources or do not have a balanced equity perspective.

2. For the recipient country:

- (a) Can be a valuable tool in assisting Government to select best programs or projects and avoid wasting scarce national assets.
- (b) Can help Governments better focus on the lowest levels of economic development and is, therefore, a natural extension of the planning process.

B. Which Projects Should Use Economic Analysis

All projects except those which fall in a directly "non-production oriented" or "social" category should undergo economic analysis. Anyone individual investing his financial resources expects results or benefits - if those benefits don't attain certain levels, then he normally will optimize his investment in projects where he can better utilize his finite amount of personal resources. From the standpoint of national economic development, rational economic choice of projects is an important policy issue, not only to optimize finite investment possibilities, but also to reduce the recurrent cost/investment ratio.

Even in the "non-productive" or "social" fields, such as T.A., health, education or institution building, certain techniques can be used to help the analyst better grasp certain economic implications of development of those projects.

C. How is Economic Analysis Utilized in A.I.D.

1. Personnel Requirements

Under the current A.I.D. design process, one can identify four different steps in economic analysis:

- (a) CDSS - for the moment would appear to remain generally expository, but can require some analytic input at the macro level, e.g., debt-serving capacity, national accounts analysis. According to a current aingram, the CDSS will require more sophisticated economic analysis. For the moment, the program economist input required for the development of a CDSS is limited.
- (b) PID - still mainly at expository level. Could usefully use certain sectoral specialists however (agricultural economist, transport economist) to provide a good preliminary feel for project's economic feasibility.
- (c) PP - It is during the design of a project that economic analytical skills are most required and the missions' need for outside personnel strongest (AID/W, REDSO, or private consultants). If these skills

are found in a mission, they are generally heavily engaged in project implementation, and, therefore, may not be available for PP design.

(d) Post-Project Evaluation - Likewise requires fairly specialized skills and, perhaps, is best conducted by people outside the mission.

This quick overview of the various steps in out design process would indicate that, for most missions, there is a strong manpower constraint in developing proper economic analysis with local personnel and they will invariably be forced to call upon outside talent.

If the mission uses non-A.I.D. economists (private or university consultants) it is important that the A.I.D. project officer monitor closely both the initially proposed methodology and the consultant's progress in order to best orient his efforts in the direction of the Agency's mandate (e.g., BHN of rural poor, food production concerns, WID).

In choosing the outside expertise, it is important for the project officer to keep in mind that project economic analysis should not be just a formal hypothetical exercise, but, rather, thoroughly grounded in realities of local living conditions. The PP economist must be able to make realistic economic assumptions based on local groundrules.

2. Timing:

It is useful to employ the services of at least one economist over the entire PP design effort, especially given the usual compressed 3-4 week timespan available for project design. If the economist's contribution to the project is minor, however, he or she may be brought in toward the end (say last two weeks) of the analysis. However, it is often useful, in the case when several project options are available, to use preliminary economic analysis to work out the less interesting options early in the design process so as to concentrate on refining the better options for the final PP. Often, appreciable time can be saved if the PP is coordinated by someone with combined design/technical skills and, in fact, may lead to a much more coherent presentation.

3. Organizational Outline:

The only relatively clear organizational outline for an economic analysis is at the PP level.

Handbook III provides only very general guidance as to the purpose of the Project Paper economic analysis.

These are (a) to identify economic worth against costs over time; and (b) to compare worth of a project with other alternatives to reach a rational project choice decision. In many cases only the first purpose is, in fact, attained, as the second purpose, that of rationally selecting the best project, is often a national or regional planning exercise.

Operationally, it is suggested that the economist undertake his normal technical analysis integrally and place this document in an annex - given time constraints, this permits the economist to vent his/her spleen in a sectoral sense so that more complete integration of the overall analysis can be made in a summary fashion in the body of the text. All tables, graphs, etc., should be included in the Annex and reproduced in the body of the PP as required. If the project officer can stay on top of all individual analyses, and properly master a collaborative effort at the PP writing stage, this method can be very effective.

4. Methodologies:

The interested reader will find some useful thoughts and references for future study in Appendix 5G of Handbook 3.

There is, however, no easily reproduced "cookbook" for economic analysis at the PP level - nor even universally applicable sub-sector "recipes". The best methodology for a specific project will depend, to a large extent, on the creativity of the economist(s) utilized, the state of existing analytic literature and the availability of accurate reference data. Because of compressed timeframes, the typical PP economist will necessarily look for shortcuts and ways of usefully compressing his analysis without altering substantially the analytical output. In all cases, it cannot be overemphasized that, as most analysis is necessarily based on a series of hypothetical assumptions, it is vitally important that the economist indicate and document these clearly.

Internal Rate of Return

The most useful and commonly utilized measure of project worth is the IRR, which, in reality, is simply a discounted cash flow over the useful life of the project. An acceptable project is one having an IRR above the opportunity cost of capital, usually taken at somewhere between 10-12 percent.

The level of confidence in a given IRR will depend on the precision which the costs and benefits can be measured.

As the data base becomes increasingly shaky, the most accurate use of an IRR is in the comparative sense, since one is at least controlling the basic assumptions in a comparative manner. Likewise, as the data base becomes increasingly shaky, the use of sensitivity tests to test the basic parameters of the basic assumptions should be utilized extensively.

Finally, the non-quantifiable aspects of project costs or benefits should always be noted when they can't be assigned some monetary value. Depending on the reviewer's particular biases, these aspects can receive heavy weighting.

Benefit/Cost Ratios:

A benefit cost ratio can be defined as follows:

$$\frac{\text{Present worth of benefits}}{\text{Present worth of costs}} \quad , \quad \begin{array}{l} \text{generally at opportunity} \\ \text{cost of capital} \end{array}$$

When the B/C ratio is utilized, acceptable projects will have a ratio of 1.0 or greater.

Basically a derivation of the IRR analysis, it is generally less utilized by A.I.D., but is acceptable if desired (e.g., if piggy-backing on other donor or separate consultant analysis where only B/C is indicated).

Cost Effectiveness:

This is a technique which has not been widely used in AID projects but can be appropriate for those projects where the benefit side of the C/B analysis cannot be easily measured (such as previously mentioned health, education, TA or institution building projects). The approach simply compares the discounted cost streams of project options (with outputs assumed similar). The least cost solution is then taken as most appropriate.

D. Supplementary Considerations

1. Macro-Analysis

Little real macro-economic analysis is generally required of the economic analysis in a PP other than a basic background economic description so that the reviewer better understands the role the project plays in the general national economy.

Two exceptions to this, although usually included in the financial section of the PP, are debt-servicing capacity and recurrent cost analysis. A study of debt servicing capacity entails the calculation of debt servicing to exports ratio and an estimation of national budget cash flow over time. This type of study is appropriate in a loan situation when the Agency is attempting to discuss if a loan should be furnished and, if so, at what terms. Recurrent cost analysis is applicable to both loans and grants, but becomes particularly useful in the least developed LDC's when the Agency may be concerned about the ability of the host country to finance the continuation of AID-sponsored projects once our financial support is withdrawn.

2. Lowest Level Budget Analysis:

Also generally subsumed under the financial analysis in the PP is some form of farm or family budget analysis (a) to indicate that the beneficiary's financial interests have been adequately addressed and that his adherence to the project is rational on financial grounds, and (b) to better address the Agency requirements for clear and positive project linkages to the small farmer rural poor. A representative beneficiary profile, combined with farm or family budget analysis, should clearly show the financial impact of the project on that target group.

E. Inflation

Inflation is a phenomenon that has often destroyed even the most carefully planned design estimates or implementation budgets. In economic analysis, however, economists utilize the simplest methodology possible - they ignore it.

In effect, as assumption is made that inflation will affect both the benefit and costs streams, over time, and uniformly in the same proportions - thus avoiding any risky crystal-balling of prices over the entire life of the project - often some 20-30 years. All prices, therefore, are kept in constant and generally current values.

On very rare occasions, inflation can be counted in the economic analysis. One example was a diesel power plant project in Rwanda where the diesel fuel was a major component of the cost stream. In that case, some careful prognosticating was carried out by an energy specialist to help account for what was expected to be an unusually high rate of inflation in one key sector.

XV. PROCUREMENT PLANNING CONSIDERATIONS, WAIVERS, LOCAL CURRENCY, FINANCING, ET AL

As part of the effort to improve the quality of project design and to increase the efficiency of the review/approval process, it is important to draw attention to a vital component of all AID-financed projects - the procurement of goods and services. The presence of a comprehensive, validated Procurement Plan as part of the Project Paper will do much to assure proper program implementation support as well as to facilitate the review/approval procedure.

Planning considerations:

(a) Applicable Regulations:

-AID Regulation 1 is the basic legal document for project planning. (Shown as Appendix A, Handbook 15).

-AID Procurement Policies are contained in Handbook 1, Supplement B.

-Handbooks 3, 11 and 15 implement the Procurement Policies of Handbook 1, Supplement B; in case of dispute, Handbook 1, Supplement B is the ruling authority.

(b) Timing:

-Early enough to identify specific needs and expected problems.

-Most desirable at the Project Identification Document (PID) stage, but essential prior to or during the Project Paper (PP) stage of design.

(c) Procurement factors:

- What services or commodities are required? Are they AID-eligible?
- Where will they be procured? Are the sources approved?
- What are the costs involved? Are delivery/handling charges included in the contemplated costs?
- Who will do the buying? The Borrower/Grantee (B/G)? A procurement services agent? The USAID Mission?
- How will deliveries be accomplished? Are shipping/air carriers source-eligible? To whom will shipments be consigned?
- When should commodities arrive?

Required Planning Actions:

(a) Host Government (B/G) involvement:

-AID policy states that host country contracting is the preferred mode of contracting, i.e., the B/G, to the maximum extent possible, procures commodities and services for AID-financed projects.

-The Mission Director must make a written determination (in the PP) that circumstances warrant an exception to this policy if the B/G cannot handle its own procurement.

-The project funds belong to the B/G; obligations for services and commodities and equipment choices must have B/G approval.

(b) Mission:

-Prepare or have prepared and equipment/commodity list for the Procurement Plan. Obtain technical assistance in developing the list; REDSO and SER/COM can help if local help unavailable.

-Obtain the B/G's concurrence with the equipment list.

-Insure that equipment/commodity cost estimates include allowances for freight charges (40% to 80% of the commodity cost), plus procurement services agent's fee and an inflationary markup.

-If the B/G does not undertake project procurement, assist the B/G in selection of a Procurement Services Agent (PSA). Help negotiate an agreement if the Afro-American Purchasing Center (AAPC) is selected; justify the choice of a B/G - selected agent other than AAPC. (See 3B below).

-Prepare the Procurement Plan, with B/G approval.

The Procurement Plan, as part of the Project Paper:

(a) Responsibilities outlined:

Can and will the B/G undertake all procurement? Any portion thereof? If affirmative, identify which entity and which government official will bear the procurement responsibility. If the B/G cannot procure, has the B/G indicated so in writing? This should be stipulated.

If the AID Mission is to be involved in project procurement, has it been directed to do so by the B/G? Exactly what will the Mission procure? Outline the Mission involvement. A Procurement Services Agent (PSA) can act for the B/G; if the requirement exists, the B/G should agree in writing.

(b) Selection and Functions of a Procurement Services Agent (PSA):
The B/G can choose any qualified PSA; if other than the Afro-American Purchasing Center (AAPC), either AID/W or REDSO should be consulted (criteria for qualifying PSAs will be made available to USAID's in the near future). What will the PSA accomplish? Will it procure only U.S. (Code 000) commodities? Will it provide technical assistance? Will it provide any technical training? Requirements should be explicit.

If AAPC is selected as PSA, formulate a contract for the expected services; establish the fees to be paid.

(c) Services and Commodity/Equipment List:

By line, definitize the groupings of commodities/equipment, e.g., 6 1-ton pickup trucks; 2 10,000-gallon water trucks; 6 180-HP farm tractors; 3,000 lbs. of grass seed; audio-visual equipment. Provide estimated delivered costs and segregate the commodities by source, i.e., U.S. (Code 000), Free World (Code 899), Selected Free World (Code 941), Special Free World (Code 935), or Local Cost Financing (Shelf Items or Indigenous Goods). Detailed specifications are not required in this Plan.

(d) Commodity/Equipment Eligibility:

There are certain statutory and regulatory restrictions on commodity/equipment procurement; e.g., vehicles, pesticides, pharmaceuticals, abortion equipment. Identify these items and make reference to any waiver requests included elsewhere in the Plan that seek approval of the desired items.

(e) Source/Origin Rules:

-Cite the applicable sources of commodity procurement (Code 000, 935, 941); if procurement from other than approved sources is necessary, identify the procurement and make reference to the waiver requests included elsewhere in the Plan.

-Local cost financing - which provides for shelf-item and indigenous goods procurement - must be shown. Details must be provided either here or elsewhere in the Plan.

-Ocean shipping and marine insurance sources rules apply; is relief required?

(f) Shelf-Item Procurement:

As part of the local costs, authorization is requested to procure commodities under the shelf-item procurement rules. The desired items and costs should be indicated in the Plan, either here or elsewhere.

-Is the Code 935 unit transaction limit (\$2,500) too restrictive? Is the \$100,000 limit too low? If so, why? What limits are desired and what particular commodities? Make reference to the waiver request for raising the limits to the desired levels found elsewhere in the Plan.

(g) Waivers:

-Waiver requests should be grouped and categorized; i.e., requests for geographic source waivers, requests for commodity eligibility waivers, requests for proprietary procurement, and/or requests that apply to shelf-item procurement should be separately identified.

-A dollar summary of the project's waiver costs should be provided.

(h) Procurement Assistance:

-SER/COM is the prime source of technical assistance, such as commodity availability, current prices, and catalogs.

-REDSO can provide on-site assistance during the project planning phases, and aid in the commodity/equipment choices as well as formulation of the Procurement Plan.

-REDSO can review the qualifications of prospective Procurement Services Agents.

-REDSO can assist in the preparation of commodity/equipment specifications, Project Implementation Orders (PIOs), Invitations for Bid, and other procurement documentation.

-REDSO, SER/COM, and AAPC can provide procurement training:

REDSO will conduct a Procurement Mini-Seminar in the Missions upon request.

SER/COM can provide for U.S. training of B/G nationals in procurement matters at AID/W and elsewhere; project funding is required.

AAPC can also provide procurement training, in the U.S. or in the host country, in English or in French; project funding is required.

A. BASIC STEPS IN THE PROCUREMENT PROCESS

When contracting for commodities, technical services, or construction singly or in combination, the procurement process normally consists of 13 main steps.

1. Determination of requirements in relatively broad terms;
2. Development of detailed specifications;
3. Determination of when the requirements are needed;
4. Identification of potential sources of supply;
5. Selection of an authorized procurement agent;
6. Identification of anticipated waivers, delegations of authority of special provisions;
7. Preparation of requests for Proposals (Solicitations of Offers) or Invitations for Bid;
8. Solicitations of proposals or bids and inclusion of the notice in AID expert opportunities bulletins, Commerce Business Daily or other publications;
9. Receipt and review of proposals or bids;
10. Selection of contractor or supplier;
11. Preparation/negotiation of contract or purchase order;
12. Execution of contract or purchase order;
13. Issuance of notice to proceed.

Steps 1 through 6 can be taken during the Project Paper approval process.

B. WAIVERS OF SOURCE REQUIREMENTS FOR AID-FINANCED GOODS AND SERVICES

1. Project Agreements, Project Implementation Letters, and other related documents specify the authorized Geographic Code for the source(s) of commodity procurement as well as the nationality of services contractors ("nationality rule"). Any AID-financed procurement inconsistent with the designated source(s) requires the issuance of a waiver.

2. Waivers of prevailing source policies must be based upon one or more of the following criteria:

- (a) There is an emergency requirement for which non-AID funds are not available, and the requirement can be met in time only from suppliers in a country not included in the authorized geographic code.
- (b) The commodity is not available from countries included in the authorized code area or there are no suppliers from countries in the authorized code area available to supply the services.

(c) For project assistance from Code 000 (U.S. only), the lowest available delivered commodity price from the U.S. is 50% higher than from a Code 941 source; for the procurement of services, the cost from suppliers in the approved source area exceeds the cost of suppliers in non-approved countries by 50% or more.

(d) Impelling political considerations.

(e) Procurement of commodities with local currency of the procurement of locally-available services (where the host country is not already eligible) would best promote the objectives of the foreign assistance program.

(f) Such other circumstances as are determined to be critical to the success of project objectives.

3. Source Waivers granted for procurement outside the countries authorized in the implementing document(s) are to expand the procurement source only to the extent necessary.

4. Authority to issue waivers of geographic source policies for the procurement of goods and services is contained in A.I.D. Delegation of Authority No. 40 and exercised as follows:

(a) Blanket Waivers:

(1) Blanket waivers having a cumulative value in excess of \$500,000, from either Code 000 or Code 941 to any other code, for an entire loan, grant, commodity, or program are made by the Administrator. Waivers of \$500,000 or less can be issued by the Assistant Administrator with program responsibility.

(2) Blanket waivers from Code 000 or 941 to the cooperating country, which in effect is an authorization for local cost financing, are made by the Assistant Administrators up to the limits of their loan or grant authorization authority (\$500,000).

(3) Blanket waivers to Code 899 or Code 935 are not normally authorized - only "specific exceptions" are made to the general policy of holding to Code 000 or 941 procurement.

(b) Individual Transaction Waivers:

(1) Administrator - for individual transactions of \$500,000 or more (exclusive of transportation costs).

(2) Assistant Administrators - for individual transactions up to \$500,000 (exclusive of transportation costs).

(3) Mission Directors - for individual transactions up to \$100,000 (exclusive of transportation costs) if such authority has been redelegated by the Assistant Administrator (see Africa Delegation of Authority No. 140, dated October 18, 1978).

5. Authorized Source Codes:

- (a) All grants except those to Relatively Least Developed Countries (RLDCs) - Code 000 (U.S. only).
- (b) Grants to the RLDCs - Code 941 (Selected Free World).
- (c) Supporting Assistance Loans - Code 000.
- (d) Development Loans - Code 941.

5. The U.N. List of RLDCs:

- (a) The poorest countries selected on the basis of low per capita gross domestic product (GDP), low proportion of GDP in manufacturing, and low adult literacy rate.
- (b) Eighteen (18) African countries qualify as RLDCs: Benin, Botswana, Burundi, Central African Empire, Chad, Ethiopia, Gambia, Guinea, Lesotho, Mali, Malawi, Niger, Rwanda, Somalia, Sudan, Tanzania, Uganda, and Upper Volta.

7. Commodity Eligibility:

- (a) A.I.D. Commodity Eligibility Listing - Handbook 15, Appendix B provides information on the general eligibility or ineligibility of commodities for A.I.D. financing.
- (b) Certain commodities may be made eligible under particular assistance agreements; the project implementing documents will spell out the normally ineligible commodities that have been approved for a specific program.
- (c) Appendix B is classified by reporting numbers - Department of Commerce Schedule B numbers - which categorize the types of U.S. commodity exports for tabulation.
- (d) Standard for eligibility: the commodities must make a positive contribution to development.

(e) Generally ineligible items:

- unsafe or ineffective products;
- luxury goods;
- surplus or used items (except U.S. Government-owned excess property);
- items for military use;
- surveillance equipment;
- weather modification equipment;
- abortion inducing commodities and equipment;
- commodities for police and law enforcement activities.

(f) Waivers against eligibility restraints - directed to and processed by AID/W, SER/COM.

(g) To be eligible for A.I.D. financing, commodities must be:

- of a source designated in the implementing documents
- mined, grown, or produced in an authorized source country.

8. Commodity Procurement - Approved Source and Source Waivers:

(a) Vehicles - must be manufactured in the United States to be eligible for A.I.D. financing. Passenger car procurement is controlled; only the most economical vehicles suited to project tasks are eligible, and then AID/W must approve the procurement.

(b) Vehicle Waivers - Assistant Administrators with program responsibility can waive the requirement that motor vehicles be manufactured in the United States; under Delegation of Authority No. 40, they can also redelegate authority to field missions up to \$25,000 to waive the requirement for U.S. manufacture of vehicles. (Mission Directors et al have this authority only if it has been redelegated by the Assistant Administrator). (See Africa Delegation of Authority No. 140).

(c) Pharmaceuticals - as a general rule, the source of AID-financed pharmaceuticals is limited to the United States and the standard A.I.D. 50% componentry rule is applicable. Protection is afforded to the patent rights of American manufacturers. Eligible items are shown in Handbook 15, Appendix B, Part II.D. Only safe and efficacious pharmaceuticals are procured; they must be on AID/W's list of items eligible for financing. All pharmaceuticals to be procured must be generically described, and are normally provided in dosage form. Formal bidding is required for all pharmaceutical procurement.

Waivers - for eligibility or source/origin acceptability, all waiver requests are directed to AID/W, SER/COM.

(d) Pesticides - procurement is controlled by AID/W, to assure that all purchases comply with applicable A.I.D. regulations. Only pesticides registered by the U.S. Environmental Protection Agency (EPA) are eligible for procurement, with purchase and use permitted following compliance with Regulation 16 which calls for an environmental examination. Findings of the initial examination could call for an added environmental assessment, an environmental impact statement, or a "negative determination" which would obviate the need for the assessment or follow-on statement.

Waivers - the use of a particular pesticide may be approved in limited circumstances providing certain requirements are satisfied. The appropriate Mission Director (or REDSO Director) must certify in writing that the pesticide will be used for health purposes and that significant health problems will occur without the use of the pesticide. Preliminary determination must be forwarded to AID/W and a final determination made in writing by the Administrator before the procurement of pesticides is authorized.

(e) Fertilizer - AID financed procurement is normally limited to U.S. source (Code 000) products. For non-U.S. purchases, prior AID/W, SER/COM, approval is required.

Handbook 15, Appendix B, Part II, lists various mixtures and combinations of fertilizers; if the desired compound is not listed, SER/COM should be so informed and the trade will be solicited to determine if the desired formulation can be obtained.

Normal procurement of fertilizer is under formal rules. Invitations for Bid (IFBs) from the Missions (B/Gs) should be routed through SER/COM for editing and passage to CM/SB for publication in the Commerce Business Daily (CBD). Under informal procedures SER/COM should be the source of all guidance and assistance.

AAPC is also capable of handling fertilizer procurement.

Waivers - of eligibility, source/origin, or formulation should be directed to SER/COM.

9. Certification Supporting Waivers to Code 899 or Code 935:

Commodity Source Waivers:

"Exclusion of procurement from Free World countries other than the cooperating country and countries included in Code 541 would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program."

Nationality of Suppliers Waiver:

"The interests of the United States are best served by permitting the procurement of services from free world countries other than the cooperating country and countries included in Code 941."

10. Source/Nationality Waivers: Preparation, Clearance, Reporting, and Control (Mission Issued):

The waiver request format used by a Mission should follow that shown in Appendix D1 of Handbook 15.

A waiver request should contain the following information:

- A statement of the authorized source of procurement and the proposed sources from which procurement probably will be made if the waiver is granted.
- The identification of the project/program authorizing document which specifies the authorized procurement source.
- Descriptions of the desired commodities and/or services, their approximate dollar value, and the type of funding.
- Summary by dollar value of waivers granted for commodity procurement by the B/G during the current quarter, previous quarter, and fiscal year to date.
- Justification in support of the waiver request, based upon the waiver criteria of Handbook 1, Supplement B, (emergency, non-availability in the approved source area, impelling political considerations, etc.).
- A "determination clause" that this waiver will further the U.S. foreign policy objectives and/or the objectives of the Foreign Assistance Program; a positive recommendation should follow.

Waiver clearance procedures within Missions should follow the guidelines prescribed by the Regional Assistant Administrator. Appropriate certification must be made part of each waiver request.

Reporting and control of Mission-issued waivers:

- All Mission-issued waivers are consecutively numbered by the approving office. Small value waivers less than \$500 shall be numbered in a separate "SV" series.
- Missions send four (4) copies of all commodity waivers of \$1,000 or more, when issued, to SER/COM/CPS for appropriate distri-

tribution in AID/W. All approved waivers of less than \$1,000 are sent to SER/CCM/CFS at the end of each month. A summary tabulation will be sufficient.

-SER/COM/CPS distributes Mission-approved waiver copies to the Geographic Bureau, Office of Financial Management (FM), and the ES.

-Missions send one (1) copy of each waiver promptly to AA/SER for central recording purposes.

-Each Mission should have a single control point with the responsibility for logging waivers and dispatching copies to AID/W (see AA/AFR Memorandum of instructions accompanying Delegation of Authority No. 140).

11. Ready Reference for AID Project Support Waiver Information: Handbook 1, Supplement B:

- AID Commodity Eligibility Listing (Page 4-3)
- Motor Vehicles (Page 4-7)
- Pharmaceuticals (Page 4-10)
- Pesticides (Page 4-13)
- Carrier eligibility (Page 4-26)
- Source and origin (Page 5-7)
- Suppliers of services (Page 5-11)
- Marine Insurance (Page 11-3)
- Local cost financing (Page 18-5)
- Marking (Page 22-3)

Handbook 15:

- Commodity source codes (Page 2-4)
- Commodity eligibility (Page 2-11; Appendix B)
- Supplier eligibility (Page 2-27)
- Delivery services (Page 2-29)
- Transportation (Page 2-30)
- Marine Insurance (Page 2-33)
- AID Marking (Page 2-41)
- Proprietary Procurement (Page 3-6)

C. LOCAL COST FINANCING - COMMODITIES

The AID policy for financing local currency procurement of commodities is found in Handbook 1, Supplement B, Chapter 18. Procedures to be followed in this procurement are found in Handbook 15, Chapter 11. Local procurement of commodities can provide the following items:

-Indigenous commodities - those mined, grown, or produced in the cooperating country. Non-free world componentry is disallowed.

-Shelf items - those items imported and stocked to meet a general public demand in the cooperating country. They are not goods imported solely to support an AID-financed project.

Both indigenous goods and shelf-items must meet eligibility criteria - they are subject to the statutory and policy restrictions found in Handbook 1, Supplement B, Chapter 4.

Financing support:

-Indigenous goods can be financed by AID project funds without limitation, other than the total local currency limit of the project.

-Imported shelf items from Code 000 (U.S.) sources can be financed in unlimited quantities. Commodities from Code 941 sources (U.S. and Less Developed Countries) can also be financed in unlimited quantities; the eligible source(s) must be identified in the project agreement. Shelf items coming from Code 899 (Free World) sources but not from Code 941 (Selected Free World) sources, i.e., Code 935 sources, can be procured if the price per unit does not exceed \$2,500; the total amount of these project purchases cannot exceed \$10,000 or 10% of the total project local cost financing, whichever is higher.

Prices to be paid for locally procured commodities will be no more than the lowest available competitive prices and purchases will be in accordance with good commercial practices.

Commodities on the local market that are imported from non-Free World countries are not eligible for AID financing.

Vehicles are not eligible items under the "shelf item rule", but cement, sand, gravel, POL and construction materials are obtainable with local cost financing.

Some locally-procured items may be ineligible as a result of being shipped aboard non-Free World vessels; high-visibility commodities (tractors, farm equipment, fertilizers, etc.) may fall under this heading.

Invoices for payment should state the source and origin of locally-purchased materials.

Waivers can provide relief from the restrictions inherent in local cost financing.

**COMMON TERMS AND EXPRESSIONS ASSOCIATED WITH AID
PROCUREMENT:**

C & F	Cost (of the commodity) plus (ocean) freight to B/G country
CIF	Cost (of the commodity) plus (marine) insurance plus (ocean) freight to the B/G country
FAS	Free along side; "FAS" (Named Port) means (in \$) the cost of the commodity to include delivery to the pier in the port; the loading of the commodity aboard the vessel is not included.
FOB	Free on board; expressed in \$, to include acquisition, shipment to the port, and loading aboard ship.
B/L	Bill of Lading; also BLADING; for ocean shipments, a document describing the shipped item(s), the carrier's charges, and all cost of delivery. Only the ORIGINAL B/L is negotiable.
PIO/C	Project Implementation Order/Commodities
PIO/T	Project Implementation Order/Technical Services
PSA	Procurement Services Agent
PP	Project Paper; also Procurement Plan; also Proprietary Procurement
B/G	Borrower/Grantee (recipient country)
GSA	General Services Administration
BUSH	Buy U.S. Here
AID/W	Agency for International Development, Washington, D.C.
Source	The country from which a commodity is shipped, or the B/G country if the commodity is located herein at the time of purchase

Origin	The country in which a commodity has been mined, grown, produced, or manufactured or assembled.
L/COM	Letter of Commitment; issued by AID/W to a Bank, a PSA, or a supplier. A Direct Letter of Commitment goes from AID/W to a supplier and saves banking charges.
L/C	Letter of Credit; issued to a PSA or supplier by an American Bank upon receipt of a L/COM issued by AID/W. The B/G must request the Bank to issue such a letter.
SLC	Special Letter of Credit - a bank issue.
FCD	Final Contribution Date - blank on PIO/C; last day of contract or procurement action.
FR	Financing Request - form addressed to AID/W for issue of an L/COM.
Reg 1	AID Regulation 1
P/O	Purchase Order
AAPC	Afro-American Purchasing Center, New York, NY
Sched B	Schedule B, Department of Commerce, commodities for export identified by a seven digit code
DAP	Development Assistance Program
FWD	Four Wheel Drive
4x2	Four Wheels, 2 driven wheels (utility vehicle)
6x6	Six Wheels, all driven wheels (2½ ton truck)
ADO	Area Development Officer
CDO	Country Development Officer (in countries without Missions)
RDO	Regional Development Officer (in charge of an area)

DED	Diesel Engine Driven
FAA	Foreign Assistance Act (of 1961) as amended
TOR	Terms of Reference
DRA	Direct Reimbursement Approval
ABS	Annual Budget Submission
PID	Project Identification Document
DP	Design Paper
PRP	Project Review Paper
PIL	Project Implementation Letter
AIP	Accelerated Impact Program
FFP	Food For Peace
PAAD	Program Assistance Approval Document
PA/PR	Procurement Authorization/Purchasing Requisition
GVW	Gross Vehicle Weight
CP	Condition(s) Precedent
AFEO	AID-financed Export Opportunities
PIB	Public Information Bulletin
SBM	AID Small Business Memo
CBD	Commerce Business Daily
LDC	Less Developed Countries (Code 941)
SLDC	Selected Less Developed Countries (Code 910)
CODE 935	Free World Countries, including the recipient country
CODE 899	Free World Countries, excluding the recipient country

EXPROP	Excess Property
PIO/P	Project Implementation Order/Participant Training
RLDC	Relatively Least Developed Countries
AAO	AID Affairs Officer
RFTP	Request for Technical Proposals
SHORTLIST	A listing of potential contractors deemed qualified after an evaluation of submitted prequalification information.

RELEVANT AID GEOGRAPHIC CODES

- 000 UNITED STATES
- 899 FREE WORLD - Any area or country in the Free World, excluding the participating country itself. "Free World" excludes the following areas or countries: USSR, Albania, Bulgaria, Czechoslovakia, German Democratic Republic, Estonia, Hungary, Latvia, Lithuania, Romania, Poland, Vietnam, North Korea, People's Republic of China, Mongolia, Laos, Cambodia, and Cuba.
- 901 LIMITED FREE WORLD - Any area or country in the Free World, excluding the participating country itself and the following developed countries: Australia, Austria, Belgium, Canada, Denmark, France, Germany (Fed. Rep.), Iran, Italy, Japan, Luxembourg, Monaco, Netherlands, New Zealand, Norway, South Africa, Spain, Sweden, Switzerland, and the United Kingdom.
- 935 SPECIAL FREE WORLD - Any area or country in the Free World including the participating country itself.
- 941 SELECTED FREE WORLD (THE U.S. AND LDCs)
Any independent country in the Free World, except the cooperating country itself and the following:

Europe		Other	
Andorra	Luxembourg	Algeria	Libya
Austria	Malta	Australia	New Zealand
Belgium	Monaco	Canada	Qatar
West Berlin	Netherlands	Cyprus	Southern Rhodesia
Denmark	Norway	Greece	Somali Republic
Finland	Portugal	Hong Kong	South Africa
France	San Marino	Iran	Yemen
West Germany	Spain	Iraq	United Arab Emirates
Ireland	Sweden	Japan	Republic of Congo
Italy	Switzerland	Kuwait	(Brazzaville)
Iceland	United Kingdom	Saudi Arabia	
Liechtenstein	Vatican City		
	Yugoslavia		

Code 911 criteria are set forth by White House directives. LDCs must be non-European, with annual per capita income of \$1,000 or less, and eligible to receive U.S. assistance. Countries in the Western Hemisphere south of Cuba and non-European Countries receiving AID assistance do not have to meet the per capita income test. (Handbook 1, Supplement B, Chapter 5).

XVI. RECURRING COST

A. General Guidance Statement

Given the reality of the national income and budget situation in most African countries, the Bureau does not require assurance in all cases that, upon project completion, recurring project-related incremental costs will be defrayed from some specifically identified source. In a number of cases, such assurance is not possible. What is important and required, however, is explicit treatment of the issue, in the form of an estimate of the magnitude of the budget requirement, if any, at project termination and an assessment of the future need for continued support. Implications of the recurring cost issue with respect to replication and/or maintenance of important project activities, systems and organizations should be spelled out. Such material can then be utilized in broader program level analyses with respect to the national budget situation and its implications in connection with total U.S. and other foreign assistance requirements in the future. Obviously projects should be designed so as to minimize potential recurring cost problems.

B. Discussion and Guidance by Project Type

Recurring cost, an issue with almost all AID-financed projects in Africa, should be viewed within three different contexts.

1. Revenue Producing Projects (financial, intermediary and revenue generation type projects - primarily in the private sector - including intermediate credit institutions, cooperatives, and other business enterprises).
2. Public Sector Institution or System-building Projects.
3. Research and Development Projects (Experimentation).

In each case the issue should be handled somewhat differently, as detailed below. In those instances where projects involve some combination of the above types, then analyses should be broken down accordingly to provide specific treatment of each distinct component.

1. Revenue Producing Projects:

This category requires the most rigorous treatment of the recurring cost issue. Normally it should be combined with an analysis of present and future financial viability of the organization, project or system assisted. At a minimum, pro forma statements of each flow (sources and uses of funds) and income statements should be projected for the life of the project and for a reasonable period after termination. Depending on the situation, this could run from one to any number of years. Assumptions concerning sources of funds and operating expenses should be spelled out and justified. It is not the Bureau's position that all recipients be financially viable after project termination; but it is important to be explicit concerning what percentage of estimated ongoing costs will have to be subsidized upon completion of the project. Also, the PP should provide an assessment of the probability that additional needed resources will be secured, and from what source. Finally, current and previous financial statements should be examined in an assessment of financial performance and its implications for future viability.

2. Public Sector Institution and System-building Projects:

With such projects the recurring cost issue normally must be analyzed without the aid of standard profitability measures. In this case a budgetary analysis of the executing agency or unit is usually indicated. The form such an analysis should take varies. At a minimum, the percentage of recurring costs represented by incremental ongoing project-related activity should be estimated along with an assessment of the capacity of the organization to secure the needed revenue from the Government, an income producing activity of its own, some other source, or a combination of the foregoing. The simple statement by the Host Government that recurring costs will be covered is not sufficient. The probability that such costs will or will not be covered, and in what degree, should be discussed. If possible, a source and application of funds statement (cash flow) should be prepared which will show the impact of project-related recurring costs upon termination and how they presumably will be covered.

3. Research and Development Projects - Experimentation:

Such projects have traditionally been treated in a class by themselves, as research can often be justified in its own right. The key question is what is required upon project termination to assure proper utilization of research results. If the research

effort or program is a discrete activity that will end with the project, with findings to be disbursed to benefit other institutions, programs, or projects, then recurring cost is obviously not a problem. Such activities could include feasibility studies, planning exercises, a census, land use or cadastral surveys, etc. Often, however, the expressed purpose of projects of this nature is to establish an ongoing analytical or research capability, in which case the project would revert in whole or in part to category number 2 above and corresponding guidelines.

XVII. THE SUBSIDY ISSUE

A. General Guidance Statement

To the extent possible, direct subsidies to project beneficiaries should be avoided in favor of system and institution building, research, and other activities related to the development of self-help mechanisms and outreach efforts.

B. Discussion

A number of LDC governments pursue a policy of subsidizing the poor. The approach can be sustained almost indefinitely in a country like the United States where only 20% of the general public fall into this category, but not in countries where 50 to 90% of the total population is engaged in subsistence agriculture. Resources for subsidies to such a group do not exist or are spread so thin that impact is marginal. In some cases impact can actually be negative, especially when small producers are lured into risky investments or changed practices when necessary subsidies cannot be maintained over a sufficiently long period.

Another factor worth considering relates to equity. Given scarce resources, subsidies to some mean exclusion of others. Direct subsidies also tend to be absorbed by the more aggressive, affluent, and better prepared beneficiaries. This is to be expected. The problem is how to control access and insure fair distribution without overly rigorous and burdensome controls.

Research has shown that small farm labor-intensive productivity can be just as high, higher in fact, than the large capital intensive models. The same goes for profitability at such levels given the application of appropriate, low-cost technological interventions and access to needed institutional and commercial services. This is demonstrated graphically by the situation of the small producer in many countries who consistently pays in excess of 100% interest to the local merchant or money lender for production and subsistence credit. Even paying the highest rates for institutional credit would leave most producers way ahead of where they are now. In other words, what is needed in most instances is access to resources on an economically sustainable basis rather than a subsidy, which may benefit an individual or a select group, but which does nothing to expand or improve a delivery system so that more can benefit in greater measure.

Subsidies are obviously needed in such areas as institution and system building, technical assistance and training, research and development. This, in fact, is where most of our assistance is targeted. The point is that subsidies should remain at this level where impact will be permanent in the form of better quality and greater outreach of services, organizational infrastructure, and experienced personnel.

A current example of the application of the above thinking is the recently approved Blue Nile Rural Development Project in the Sudan. The farmer, in this case, is asked to pay the full cost of mechanization (including equipment depreciation) and credit services, minus initial start-up, technical assistance and training costs. Project resources are directed toward institution and system building. Before the end of the project, substantial capitalization should occur in the cooperative system: contemplated, and government services established should be freed to a great extent to focus on expansion and replication.

C. Recommendations

- 1. To the extent possible, project beneficiaries should pay commercial rates for credit, goods, and services received, i.e., cost plus a margin for administration and capitalization (in case of private intermediaries).**
- 2. Subsidies for institution building, research and development, system expansion, technical assistance, training, and other costs of this nature are acceptable and often essential. Such subsidies should be clearly identified, however, together with explicit rationales.**
- 3. In cases where overriding reasons exist for direct or indirect subsidies to project beneficiaries, such subsidies should be clearly identified and justified.**