



**ORGANISATION OF THE
CORPORATE FINANCE GROUP**

OPTIONS AND RECOMMENDATIONS



USAID | Iraq Economic Governance II

PREPARED FOR:

Ministry of Electricity

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1 INTRODUCTION

1. INTRODUCTION

This report is prepared under the Economic Governance II (EG II) program, which is financed by USAID. As part of this program BearingPoint has been providing technical assistance and support to the Ministry of Electricity (MoE) in a number of areas. One of the highest priorities of the MoE is to improve the financial performance of the Ministry and the electricity sector. This encompasses improving financial information and management, increasing collections and reducing costs. Our work under EG II comprises the following:

- Introduction of three financial management models: Financial Planning, Loan Tracking and Cash Management, to improve financial information and analysis.
- Establishment of a Corporate Finance Group (CFG) within the MoE, which will be responsible for financial planning and analysis and in particular will be charged with maintaining and using the three models.

These concepts have been presented to and discussed with the MoE on numerous occasions, most recently in a three day Workshop (19th – 21st July 2005) at the MoE Training Centre in Baghdad. The Finance Subcommittee of the Capacity Building Steering Committee has accepted these two concepts and recommended that the MoE should implement them.

Before the CFG can be implemented there must be agreement on the organization structure, and in particular on the major reporting lines to other parts of the MoE. The purpose of this report is to present the main options for the organization and structure of the CFG and to recommend the most appropriate for the MoE. The remaining sections:

- Set out the main responsibilities of the CFG.
- Describe the options for where the CFG should be located within the structure of the MoE.
- Describe the options for the organization of the CFG.
- Summarize our recommendations.

2 THE CFG

2. THE CFG

The justification for establishing the CFG and its planned responsibilities are described in a number of previous reports and presentations that have been submitted to the MoE. Since the responsibilities and scope of work for the CFG are the key drivers of its organization structure, they are summarized here for the convenience of the reader.

2.1 Objectives

The proposed objectives of the CFG are as follows:

- Carry out regular financial analysis and reporting of Ministry operations.
- Act as a centre of excellence for financial forecasting and analysis within the MoE.
- Act as the focal point for the Ministry's efforts to attract private sector investment in the Iraqi electricity sector.

2.2 Responsibilities

The proposed responsibilities of the CFG are as follows:

- Providing assistance to MoE senior management in decision making, in particular through the analysis and development of the Ministry's policies and programs. This will include financial analysis of proposed policies, programs and major projects.
- Establish, populate with data and maintain the three Financial Management models.
- Prepare forecasts for the Ministry's operations and periodically review operating and financial performance, comparing actual to forecast.
- Provide regular reports to senior MoE management on the Ministry's cash position and (in due course) on the long term debt of the operating companies.
- Co-ordinate the Ministry's input to tenders for privately financed generation and other projects.
- Prepare financial data needed for publication.

3 REPORTING LINES

3. REPORTING LINES

3.1 Organization of the MoE

The current organization of the MoE is presented overleaf. We understand that the MoE is considering ways of improving the efficiency of the organization but without undertaking a fundamental restructuring of the electricity sector.

The electricity sector in Iraq is highly vertically integrated. Policy, operations and regulatory functions are all carried out by the same organization, the MoE. For some years the rest of the world has been moving away from this model, with the first step being the separation of policy and operations (usually by setting up State owned corporations) and the establishment of a body responsible for sector regulation. We understand that the MoE currently has more urgent priorities to deal with, and the disruption and drain on resources that such a major restructuring would create could detract from more important emergency measures. However, it is likely that these issues will be revisited at a later date. This suggests that the CFG will need to be flexible enough to adapt to such potential changes as the corporatisation of the operating units and the setting up of an independent regulator.

3.2 Options for the CFG Reporting Lines

In developing the options for where the responsibility for the CFG should be placed within the MoE we took the following into consideration:

- Current structure of the MoE.
- Likely future developments in the structure of the MoE.
- Objectives and responsibilities of the CFG.
- The need for high level support for the CFG to ensure the success of what is, in effect, a new unit with new responsibilities for the MoE.
- The fact that the CFG's responsibilities will overlap with several other parts of the Ministry and the risk of duplication of resources and internal conflicts.

We have identified the following four options for the CFG:

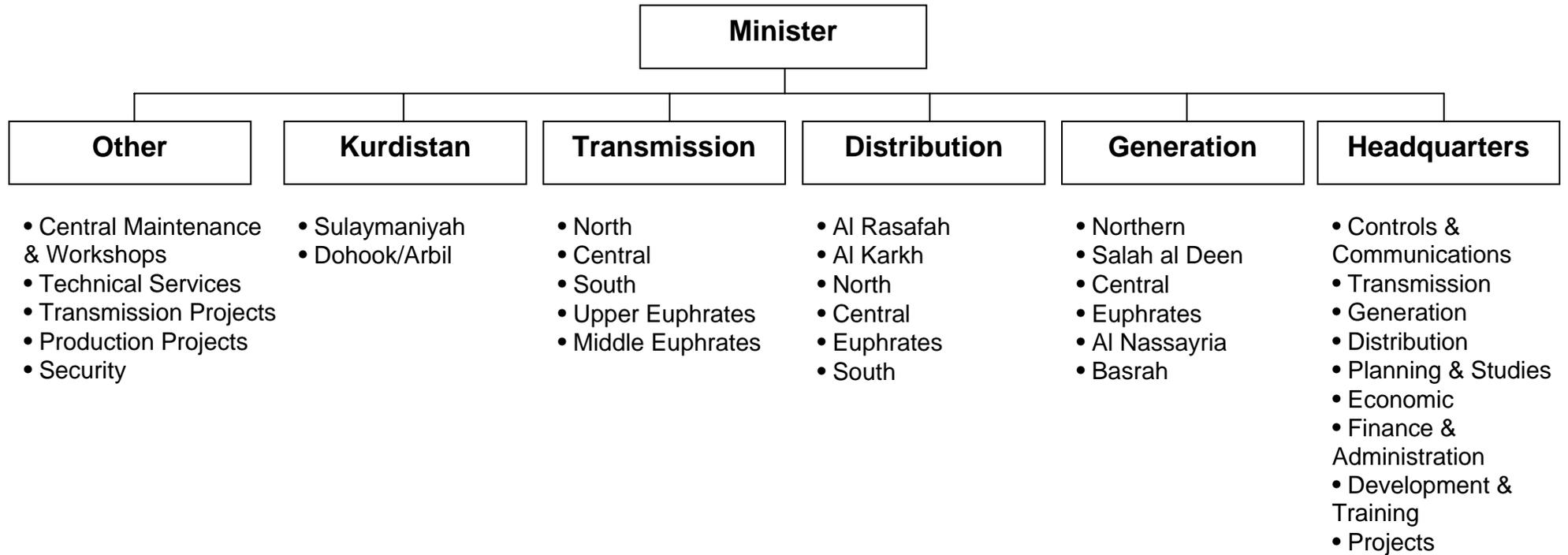
1. A new directorate reporting to the Minister or a Deputy Minister.
2. Part of the Finance & Administration directorate.
3. Part of the Economics directorate.
4. Part of the Planning & Studies directorate.

The advantages and disadvantages of these options are presented below.



Reporting Lines

Figure 3.1 Current organization structure of the MoE



Reporting Lines

Advantages	Disadvantages
Option 1: New Directorate	
<ul style="list-style-type: none"> • High level support and access to the most senior MoE management. • Sufficient leverage to ensure co-operation of other parts of the Ministry. • Higher profile makes it more likely to get the resources and budget it needs. • Easier to attract the best staff. 	<ul style="list-style-type: none"> • Creates an additional directorate at a time when the Ministry is trying to reduce costs and improve organizational efficiency. • May create tension with existing directorates where responsibilities overlap.
Option 2 Finance & Administration	
<ul style="list-style-type: none"> • In line with the emphasis of the CFG on finance. • Easier to transfer the necessary qualified staff. • May be easier to obtain the financial data needed to populate the three models. • Can build on existing links to the MoE's operating units to develop a Ministry-wide organization. • Likely to require fewer resources to set up within an existing directorate than to build a new one from scratch. • Potential fit with existing financial reports. 	<ul style="list-style-type: none"> • Risk of developing into a purely finance and accounting organization, losing the policy/analysis elements. • Less leverage with other parts of the Ministry as reporting lines are indirect/diluted; makes it more difficult to obtain the necessary co-operation. • Less direct access to MoE senior management may limit the benefits from the CFG's work. Risk of being sidelined. • More likely to be conflicts with the Planning and Economics directorates over the overlap with their responsibilities.
Option 3 Economics	
<ul style="list-style-type: none"> • In line with the emphasis of the CFG on finance and on policy analysis and forecasting. • Likely to require fewer resources to set up within an existing directorate than to build a new one from scratch. 	<ul style="list-style-type: none"> • Need to establish links to operating units in order to obtain the necessary data. • Less leverage with other parts of the Ministry as reporting lines are indirect/diluted, makes it more difficult to obtain the necessary co-operation. • Less direct access to MoE senior management may limit the benefits from the CFG's work. Risk of being sidelined. • More likely to be conflicts with the Planning and Finance directorates over the overlap with their responsibilities.

Reporting Lines

<i>Option 4 Planning & Studies</i>	
<ul style="list-style-type: none"> • In line with the emphasis of the CFG on project and program analysis. • Adds a strong finance capability to the existing engineering expertise of the directorate. • Likely to require fewer resources to set up within an existing directorate than to build a new one from scratch. 	<ul style="list-style-type: none"> • Introduces new finance skills to a unit that is dominated by engineers. Risk that the CFG will not be given sufficient weight within the directorate. • Need to establish links to operating units in order to obtain the necessary data. • Less leverage with other parts of the Ministry as reporting lines are indirect/diluted, makes it more difficult to obtain the necessary co-operation. • Less direct access to MoE senior management may limit the benefits from the CFG’s work. Risk of being sidelined. • More likely to be conflicts with the Economics and Finance directorates over the overlap with their responsibilities.

Table 3.1 Comparison of CFG Reporting Options

3.3 Recommendation

The arguments are finely balanced and there is no clear winner. All of the options have merit and all of them have disadvantages. However, the CFG is a new concept for the Ministry. The best chance of success is to give it the necessary high profile, seniority and leverage. On balance, therefore, we would recommend **Option 1** initially.

In the longer term the MoE is likely to be restructured. The operating units will become more independent and will take on more responsibility for their financial management and strategy analysis, although they will still have to provide regular financial reports to headquarters. At that time, as part of a wider restructuring, the CFG headquarters unit (CFG/H) could become part of a larger directorate within the Ministry itself rather than a stand alone directorate, to reflect its reduced responsibilities.

4 STRUCTURE

4. STRUCTURE

4.1 Basic Structure

The CFG must be represented in the operating units within the MoE as well as in its headquarters, since it will need to obtain and be able to check data and information from all of the operating units of the Ministry. In particular:

Requirement	Implication
The main objective (at least at the beginning) is to provide data and analysis for the Ministry’s senior management.	The CFG will need to be based at Ministry headquarters.
The CFG will need ready access to all of the operating directorates to obtain the data needed to maintain the financial models.	The CFG will need national and ministry-wide coverage.
In future, when the operating units are corporatised, the CFG should be able to provide the necessary analytical capability to each new operating company, while retaining links to headquarters at an operating level.	The CFG will need sub-units to give it the flexibility to restructure along with the rest of the Ministry and to ensure that new operating companies have access to the skills needed. Over time these will become more decentralized.

Table 4.1 Structural Considerations for the CFG

Meeting these requirements indicates that the basic structure of the CFG will need to be as follows:

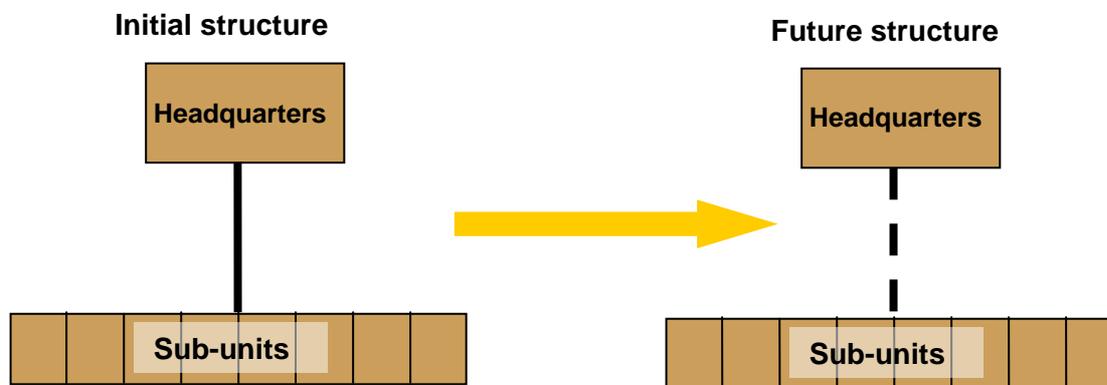


Figure 4.1 Evolution of the CFG Structure

4.2 Fit Within the MoE

Although it is difficult to question the basic structure described above, the key question that needs to be answered is “How will this fit within the current MoE organization?” In effect, the issue is the number of sub-units (Corporate Finance Units or CFUs) that will need to be created and at what level they will be placed. There are two main options:

Structure

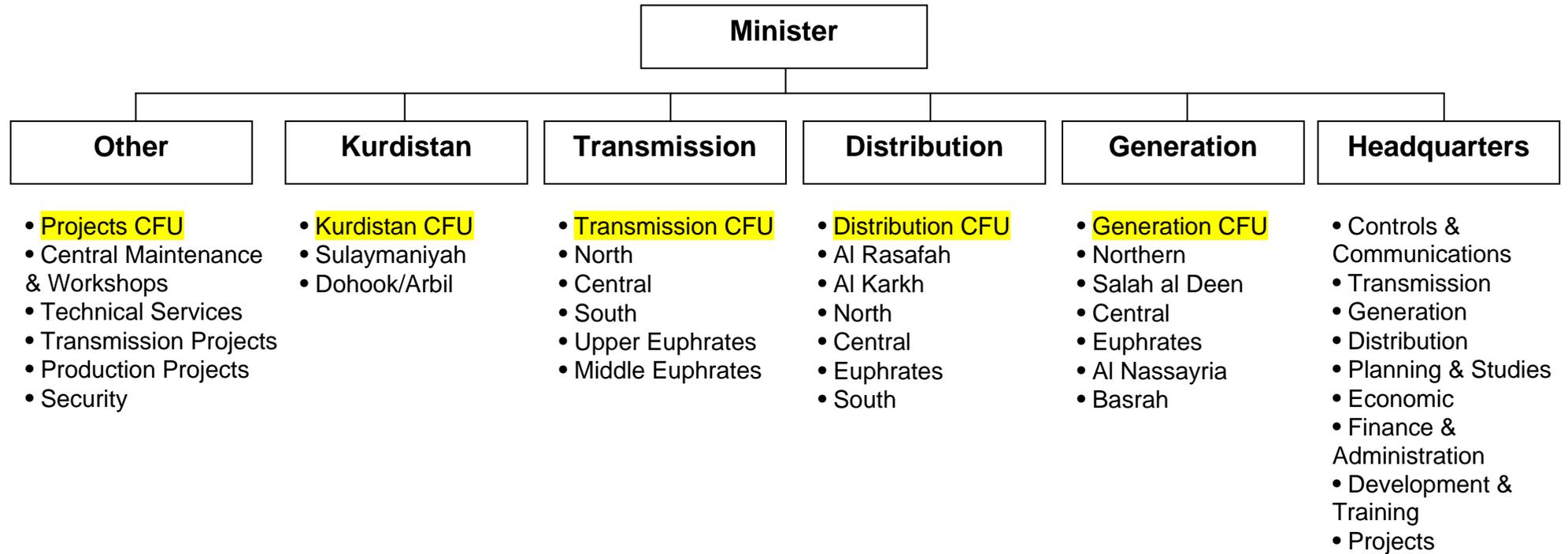
1. At the *business segment level*. This would require five sub-units: Generation, Transmission, Distribution, Kurdistan and Projects.
2. At the *directorates level*. This would require 21 sub-units: Generation (6), Transmission (5), Distribution (6), Kurdistan (2) and Projects (2).

These are highlighted in yellow in the figures below:



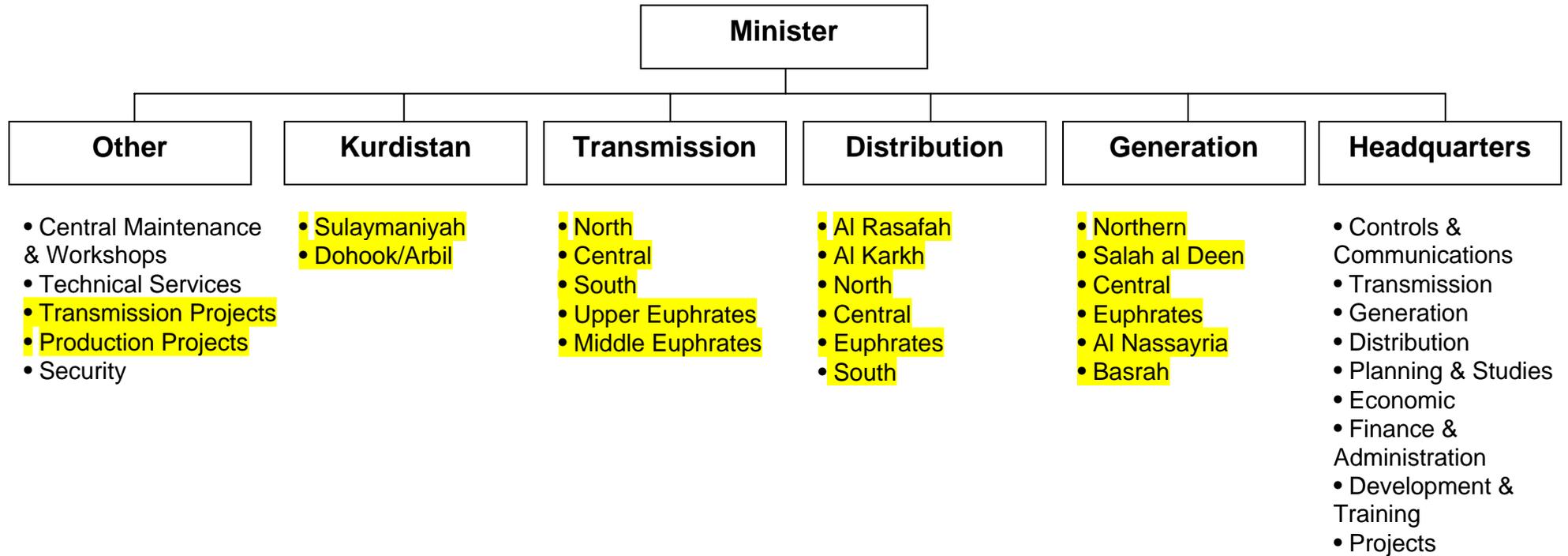
Structure

Figure 4.2 Option 1 Business Segment CFUs



Structure

Figure 4.3 Directorate CFUs



CFG Organization and Skills Requirements

Option 1 would require fewer staff and resources than Option 2.

Resource	Option 1	Option 2
CFU Staff:		
• Analysts	5	0
• Junior Analysts	10 ¹	42
• Support staff	5	0
Offices	5	21
Vehicles	15	0

Table 4.2 Comparison of Resource Requirements

Option 2 would also require more analysts at the CFG headquarters to compile the data, work that would be done by the business segment analysts in Option 1.

The advantages and disadvantages of these options are presented below.

Advantages	Disadvantages
Option 1: Business Segment CFUs	
<ul style="list-style-type: none"> • More compact organization with lower resource requirements and training costs. • Analysts are based in each business segment, preparing for a more decentralized CFG approach in future with more analysis carried out at business level. • Data collection and processing is decentralized, each CFU compiles and updates the financial models, so less burden on the headquarters. 	<ul style="list-style-type: none"> • Each CFU covers the whole country – collecting all the necessary data may be a stretch. • Does not match the current Ministry organization – there are no powerful Generation, Transmission and Distribution groups – so may find it difficult to get co-operation • Presupposes that the future structure of the Ministry will be along these lines.
Option 2 Directorate CFUs	
<ul style="list-style-type: none"> • Each CFU is closer to the source of the data, so collection and checking will be easier. • Fits the current organization structure of the Ministry. • Uses lower level staff in the CFUs, no need for analytical capability and less expensive. • The CFG will have a network that covers every directorate, ensuring better communications and a closer understanding of the MoE's operations. 	<ul style="list-style-type: none"> • Costly duplication of resources and training expenses. • When the Ministry restructures many of these units could become redundant. • Lower level staff would have less leverage to encourage the regions to co-operate. • Less likely to evolve into decentralized analytical units.

Table 4.3 Comparison of CFU Options

4.3 Recommendation

Based on the above analysis there is no clear winner. Option 1 is lower cost, more efficient and more flexible and sustainable in the longer term. However there are concerns over the ability of the CFUs to cover the entire country efficiently and the cost advantage may end up being diluted by a need to add further resources. Option

¹ Assume one junior analyst can cover two directorates, with support from the analyst.

CFG Organization and Skills Requirements

2 provides the CFG with a national network covering each directorate but it is more expensive and unlikely to be robust to future changes within the Ministry.

On balance we would recommend **Option 1** on the grounds of cost and sustainability.

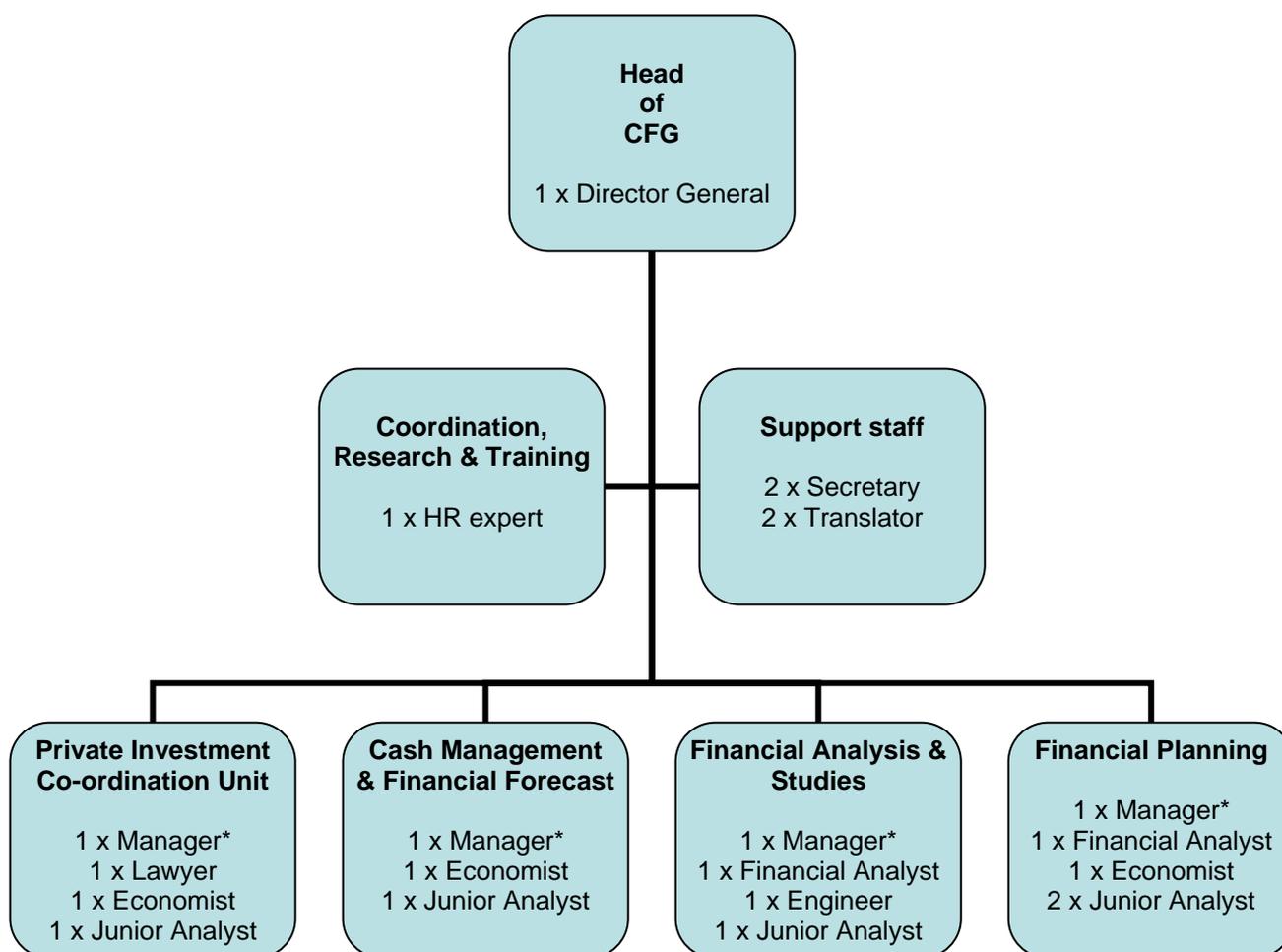
5 CFG ORGANISATION AND SKILLS REQUIREMENTS

5. CFG ORGANISATION AND SKILLS REQUIREMENTS

5.1 Headquarters

The structure set out below is based on the key tasks identified in Chapter 2 and assumes that our recommended options are implemented.

Figure 5.1 CFG Headquarters



* Would also act as a Financial Analyst.

There would be little change if the CFG were part of the Economics, Finance or Investment Planning directorates, except that the head of the Unit would be below Director General level. If Option 2 were selected rather than Option 1 for the CFUs there would be a requirement for at least two additional junior analysts for compiling the data from the directorates.

We have included in the CFG the responsibilities of the current Privatization Unit in the Ministry headquarters. This Unit was subject to a separate report² in which we recommended that the name be changed to “Private Investment Co-ordination Unit” and that it focus on running tenders for private investment in the Iraqi electricity sector. We understand that the requirements for this function have changed:

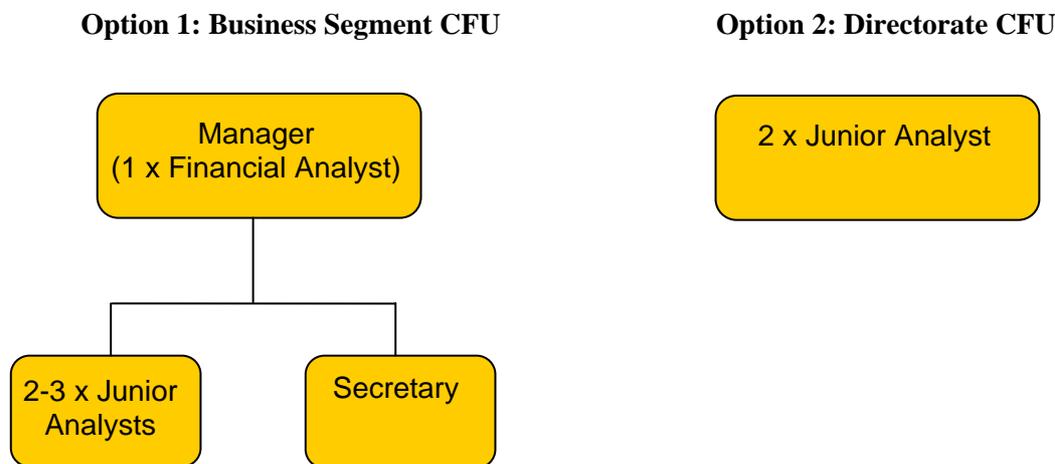
- In the short term the Ministry is focusing its resources on increasing delivery of electricity to customers. The quickest solution to this is improving international transmission links. Running tenders for new generation capacity, which can take several years to complete, has a lower priority.
- There is a prospect that the Ministry of Planning may take on the responsibility for running tenders for new generation capacity. These will still need support from the MoE but such support would focus on technical and regulatory aspects, changing the amount and type of input needed.

We believe that there is still a need for a specific unit in the MoE with responsibility for co-ordinating its inputs to such tenders and to work on other potential private sector participation projects. However, it would no longer need to have a direct report to a Deputy Minister. Given the analytical and financial capabilities that will anyway be part of the CFG (including, for example, project appraisal), this would be well placed within the CFG/H.

5.2 CFUs

The organization structure for the CFUs will depend on the option that is selected.

Figure 5.2 CFUs



The justification for this structure was discussed in Chapter 4.

5.3 Skill Set and Training

The skills requirements for the CFG would be as follows:

² Structure of MoE Privatization Unit, April 2005.

CFG Organization and Skills Requirements

- Headquarters:**
- Corporate Finance
 - Computer skills
 - Use of the three Financial Models
 - Economics
 - Technical/engineering
 - English language

- CFUs:**
- Corporate Finance/basic financial skills
 - Computer skills
 - Use of the three Financial Models

Training in corporate finance and in the use of the three financial models to the CFG/H and CFU staff will be required in order to establish the CFG successfully. The number of trainees will depend on the option selected as set out below.

	Option 1	Option 2
CFG/H	18	20
CFUs	16	42
TOTAL	34	62

Table 5.1 Number of Trainees

We have identified three approaches to providing the necessary training:

- *Training in Egypt.* The Egyptian Electricity Holding Company already uses the three financial models and has a dedicated training division. They would be able to provide the training. This is the highest cost option but also provides the highest quality training.
- *Train the Trainers.* Train 10 CFG staff in Egypt as trainers, who will then provide the necessary training to the remaining CFG staff in Iraq. This is a reasonable compromise between cost and quality but is the longest to implement since the trainers will need to be trained (3 months) before they can train the other staff.
- *Training in Iraq.* Bring trainers from Egypt to Iraq. This will be quicker than the Train the Trainers approach and the cost is similar but there are significant security concerns and our initial enquiries suggest it will be difficult to find suitable trainers who would be willing to come to Iraq for an extended period.

Our initial estimate of the cost of each training option is set out in the table below:

(US\$ '000)	Training in Egypt	Train the Trainers	Training in Iraq
Business Segment CFU	242	183	105
Directorate CFU	441	183	140

Table 5.2 Comparison of Training Costs

A more detailed analysis is included in Annex 1.

The Training in Egypt approach is the most expensive and could not be entirely funded by the EG II project. However, the MoE is considering whether it can contribute to the costs of this training from its own resources. If the resources are available we would recommend **Training in Egypt** because of the timing and quality implications. If not, then we would recommend the **Train the Trainers** approach, although this will create a significant delay.

Conclusion

6 CONCLUSION

6. CONCLUSION

6.1 Summary of Recommendations

We recommend the following for the organization of the CFG:

- The CFG should initially be set up as a new Directorate, reporting to the Minister or at least to the Deputy Minister responsible for Finance and Planning.
- In future as operations are decentralized and corporatized, the CFG/H can be absorbed into another directorate while the CFUs in the operating businesses would be strengthened to allow them to become true corporate finance and strategy units within the operating structure of the business.
- The CFG would comprise a headquarters function supported by decentralized CFUs in the operating businesses.
- There should be five CFUs: Generation, Transmission, Distribution, Kurdistan and Projects.
- The organization structure and skill set of the CFG should be as set out in Chapter 5.
- Training for the CFG staff should include corporate finance techniques and practices as well as specific training in the three financial information models. If the Ministry can contribute to the cost this training should be carried out in Egypt. If not a Train the Trainers approach is recommended.

6.2 Next Steps

The following steps are required to progress the establishment of the CFG within the Ministry:

- Approve the recommended structure and the approach to training (Minister).
- Identify candidates for the CFG and for the corporate finance training (BearingPoint/Finance Subcommittee).
- Prepare a detailed implementation plan to establish the CFG (BearingPoint).

X APPENDICES

X. APPENDICES

Appendix A – Training

As part of BearingPoint's capacity building support to the Ministry of Electricity (MoE) we have recommended that the Ministry adopt three financial models: Financial Planning, Loan Tracking and Cash Management. USAID funded the development and installation of an appropriate model in Egypt based largely on simple Excel spreadsheets. The model is already in Arabic but it requires "Iraqisation" to ensure that it matches the MoE's accounting system and terminology. USAID Egypt has issued the necessary release to allow us to adapt these models for Iraq.

In April 2005 BearingPoint took a party from the MoE's Finance, Economics, IT and Training departments to Egypt to examine the models and the associated CFG concept being used in practice.

Establishing the CFG and the three models in the Ministry and operating companies will require a considerable investment in training. This is not so much in using Excel but in the concepts of Corporate Finance for strategic planning and policy development. Most Ministry staff have no experience in such things. Training is a time and labor intensive activity. In preparing for the implementation of this approach we have therefore examined various approaches for delivering the training:

- Training in Egypt
- Train the Trainers
- Training in Iraq

Training in Egypt would provide the best quality, the cost would be highest. Part of the costs may be funded through the EG II program. If the Ministry has the resources available to meet the remainder this would be the preferred option. If not, the Train the Trainers approach is the second best, although this will take longer to implement.

In each case it is assumed that the "Iraqisation" of the Egyptian model and its installation in the MoE and operating companies will be done by Ministry IT staff, supervised by BearingPoint.

The objective is to train suitably qualified financial staff of the MoE and operating companies in corporate finance management and in the use of the three financial management models. These staff would form the core of the CFG.

The three approaches are as follows:

- ***Training in Egypt:*** Send all CFG staff to be trained by the Egyptian Electricity Holding Company in Egypt at one of their purpose built training facilities. Training would take 4 weeks for each batch and would be in batches of around 20 to reduce disruption at the MoE.
- ***Train the Trainers:*** Bring 10 MoE staff to Egypt for in depth (3 months) training in corporate finance and in training techniques, to qualify them to provide training to the remaining CFG staff in Baghdad. Training for the remaining CFG staff would take 4 weeks per batch and would be in batches of around 20. With more trainers available courses could be run in parallel and in different parts of the country to reduce travel and accommodation costs. The Ministry would need to bear the cost of travel, accommodation and training facilities for the trainees in Iraq. The EG II project would fund the training of trainers in Egypt.
- ***Training in Iraq:*** Bring 4 trainers from Egypt to train CFG staff at the Ministry's training facility in Baghdad. Training would take 4 weeks per batch and would be in batches of around 20 to reduce

Appendices

disruption at the MoE. The Ministry would need to bear the cost of travel, accommodation and training facilities for the trainees. The EG II project would fund the trainers.

Comparison of the Options

The advantages and disadvantages of the three options are as follows:

Advantages	Disadvantages
<i>Training in Egypt</i>	
<ul style="list-style-type: none"> ✓ More intensive course, including access to people who actually use the model in their work. ✓ Less potential for trainees to be distracted by work issues. ✓ Little security risk. ✓ Probably provides the best overall quality of training. ✓ Management/administration costs lower. ✓ Builds relationships between the MoE and Egyptian equivalent. 	<ul style="list-style-type: none"> ✗ The most expensive option by far. ✗ Difficult to manage the MoE staff when they are so far away (the Egyptian Holding Company reports low attendance of Iraqi staff being sent on other training there).
<i>Train the Trainers</i>	
<ul style="list-style-type: none"> ✓ Greatest capacity building benefit to the MoE (trainers as well as corporate financiers). ✓ Lower security risk. ✓ Opportunity to run courses in parallel and in different parts of the country. ✓ Trainers will have much more in depth knowledge of corporate finance. ✓ Builds relationships between the MoE and Egyptian equivalent. 	<ul style="list-style-type: none"> ✗ The most lengthy to complete since trainers must be trained first.
<i>Training in Iraq</i>	
<ul style="list-style-type: none"> ✓ Lowest direct costs to the project. 	<ul style="list-style-type: none"> ✗ Indications are that it will be difficult to find people willing to come to Baghdad for the required length of time. ✗ Greatest security risk – trainers will be going to the MoE training facility 5 days a week for several months. ✗ Risk of trainees being distracted by work issues.

The cost implications are as follows:

Appendices

Option 1: 5 CFUs

	Option 1 Training in Egypt	Option 2 Train the Trainers	Option 3 Training in Iraq
Location	Egypt	Egypt (10)/Iraq (34)	Iraq
Training provider	Electricity Holding Co	Electricity Holding Co (10)/MoE (34)	Independent contractors
Course length	4 weeks x 17 people x 2	16 weeks x 10 people x 1 4 weeks x 17 people x 2	4 weeks x 17 people x 2
Travel costs met by	EG II	EG II (10) MoE (34)	EG II (trainers) MoE (trainees)
Accommodation/per diem met by	EG II	EG II (10) MoE (34)	EG II (trainers) MoE (trainees)
Timeframe	2-3 months	5-6 months	2-3 months
Costs (\$)			
Air fares	27,200	8,000	9,600
Other transport	2,000	1,800	0
Accommodation	61,200	54,000	0
Per diems	96,900	71,400	22,700
Training	54,400	48,000	72,900
TOTAL	241,700	183,200	105,100

Option 2: 21 CFUs

	Option 1 Training in Egypt	Option 2 Train the Trainers	Option 3 Training in Iraq
Location	Egypt	Egypt (10)/Iraq (62)	Iraq
Training provider	Electricity Holding Co	Electricity Holding Co (10)/MoE (62)	Independent contractors
Course length	4 weeks x 21 people x 3	16 weeks x 10 people x 1 4 weeks x 21 people x 3	4 weeks x 21 people x 3
Travel costs met by	EG II	EG II (10) MoE (62)	EG II (trainers) MoE (trainees)
Accommodation/per diem met by	EG II	EG II (10) MoE (62)	EG II (trainers) MoE (trainees)
Timeframe	3-4 months	6-7 months	3-4 months
Costs (\$)			
Air fares	49,500	8,000	9,600
Other transport	3,700	1,800	0
Accommodation	111,600	54,000	0
Per diems	176,700	71,400	32,400
Training	99,200	48,000	96,900
TOTAL	440,700	183,200	139,500