AGENCY FOR INTERNATIONAL DEVELOPMENT

HANDBOOK TRANSMITTAL MEMORANDUM	DATE September 9, 1991	TRANS. MEMO NO. 3:74

MATERIAL TRANSMITTED:

Handbook 3 - Project Assistance

Chapter 3, pages 3-19 thru 3-43 have been reissued to include information which was inadvertently removed from an earlier update.

SUPERSEDES:

Pages 3-19 thru 3-43 (TM 3:69)

FILING INSTRUCTIONS:

1. Remove superseded material as indicated under SUPERSEDES.
2. File the attached in their appropriate places.
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KEEP THIS TRANSMITTAL MEMORANDUM, which has an up-to-date Checklist for this Handbook on the back. File this TM 3:74 in the front of the handbook binder; discard TM sheet 3:73.

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CHECKLIST FOR HANDBOOK 3
PROJECT ASSISTANCE

AUTHOR OFFICE: PPC/PDPR

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1-10-86	Pages 3G-3 and 3G-4 of Ch. 3; App. 8C to Ch. 8; and pages 10-5 and 10-6 of Chapter 10	3:54
Aug.'86	New Handbook Index	3:56
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Various	Pages 6G-1 thru 6G-2 of Ch. 6; pages 8-4, 8-35 of Ch. 8; page 11-5 of Ch. 11	3:59
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Various	Reissuance in its entirety	3:68
Various	Pages 1-7 thru 1-11, 1A-1 thru 1A-6 of Ch. 1; pages 2-1 thru 2-17 of Ch. 2; pages 3-1 thru 3-41, and App. 3P of Ch. 3	3:69
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AGENCY FOR INTERNATIONAL DEVELOPMENT

HANDBOOK 3

PROJECT ASSISTANCE

(TM 3:43)
9-30-82

PREFACE

Definition of a Project

This Handbook is applicable to all projects for which AID has responsibility through funding of guarantees. The system for analyzing, authorizing, and implementing all AID activities is described in either this Handbook 3- Project Assistance, or Handbook 4 - Nonproject Assistance. A development project is defined as the total, discrete endeavor to create through the provision of personnel, equipment and/or capital funds a finite result directly related to a discrete development problem.* Modes, or means of delivery of project assistance in AID, include all loans and grants for technical assistance projects, all loans and grants for capital projects, PL-480 Title II, Housing Investment and other AID Guaranties, research grants, institutional development grants, grants or loans to intermediaries (such as voluntary agencies) to conduct projects, self-help, projectized sectoral assistance, some level-of-effort contracts and similar vehicles of assistance. Handbook 4 - Nonproject Assistance, includes budget support, PL-480 Title I, block grants not tied to specific targets, foreign disaster relief and other emergency assistance. In distinguishing between project assistance and nonproject assistance the following comparison should be useful:

	PROJECT ASSISTANCE	NONPROJECT ASSISTANCE
OBJECTIVE	To increase the well being of a specified, identifiable portion of the population through the creation or transfer of knowledge, creation or modification of facilities or institutions or modification of policies and programs.	To increase the supply of resources. The volume of assistance is dependent upon the adequacy of supply and economic variables rather than impact upon specified beneficiaries.

*To the extent possible, the project documentation system described in this Handbook also should be applied to projects financed from funds appropriated from Economic Supporting Assistance, and/or other funding categories. It is recognized that, due to a number of factors, full compliance with the system, both with respect to timing and content of the documentation for such projects, will not always be possible.

MEASURABLE RESULT	Generally a long range change in the condition of the target population takes place.	Generally short-term relief from macroconstraints and changes in the general economy takes place.
ANALYSIS	Depends upon demonstrated linkage between the project inputs and the target group; essentially by micro-economic analysis.	Depends upon linkage between the resource supply and the inputs; essentially by macro-analysis.

Aim of the Handbook

A. This handbook sets forth the substantive and procedural role of AID in relation to projects supported by AID from project creation through the completion of AID's role with the project. While other handbooks present particular details on the AID planning, budgeting and implementation processes, this handbook will describe the total AID project process and will be the only place in the handbook series:

1) giving an overview of the AID project process,

2) presenting information on the requirements for analysis, authorization, implementation/monitoring and evaluation of projects supported by AID,

3) setting forth AID formats for standard project agreements and basic standard implementation documents.

B. This handbook is a blend of both generalized policy statements and explicit word-by-word guidance. AID encourages creativity in the projects it undertakes, but it purposely wishes to preclude situations which arise from confused or inadequate guidance. Users are urged not to live by every comma of this handbook but to focus on the basic aims, substance and policies set forth in this handbook.

C. Importantly, this handbook aims at specifying the "rules of the game" used by AID and is intended to be of use to AID employees, other governments and institutions and contractors employed under AID funding.

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CHAPTER 1
PRINCIPLES OF PROJECT SELECTION

CHAPTER 1

PRINCIPLES OF PROJECT SELECTION

1A. General Framework and Origin of Project Ideas

1. Country Strategy Framework

The identification of development problems to be addressed with AID-financed assistance is usually undertaken in the course of carrying out sector assessments and proposing strategies as part of the Country Development Strategy Statement (CDSS). Problems of a regional or multi-country nature will normally be outlined in either a country CDSS or central bureau Program Strategy Statement (CPSS). Guidance relating to the development of such strategies and the general selection of bilateral and centrally funded project activities is included in Handbook 1, Policy and Handbook 2, Program Planning and Budgeting. This chapter discusses more specific project formulation concepts.

The agreed upon CDSS or CPSS statements provide the framework within which a field mission or bureau typically will respond to the development problems and constraints of a particular country or region. However, priority development problems and opportunities for AID assistance may arise which are not identified in the current strategy statement. Projects which respond to such needs may be identified and proposed for funding; however, such proposals should be accompanied by the functional equivalent of a supplementary CDSS or CPSS justification.

2. Identifying and Defining the Problem

Identifying the problem to be addressed is the first step of the project identification process. Because development problems are often structural in nature, designers must be sure that they are addressing underlying problems rather than their symptoms. The definition of a development problem is a point-in-time description of a situation that may not be static. In order to ensure that the definition of a development problem is adequate and appropriate, it should be reevaluated and refined as alternative courses of action are considered.

1A

3. Origin of Specific Project Ideas

Project ideas can come from most any source, e.g., recipient country government officials, private citizens, commercial firms, educational and professional institutions, donor organization officials, private and voluntary organizations. Such ideas should be examined and refined in joint discussions among AID, recipient country officials and/or private citizens in a cycle of problem identification, assessment of alternative solutions, and identification of the most assessment of alternative solutions, and identification of the most practicable potential solution. Such collaborative efforts should, wherever possible, include intended beneficiaries and those parties whose participation will be needed to insure project success.

1B. Consideration of Alternative Solutions and Presentation of Project Ideas

1. The Development of Alternatives

The consideration of alternative solutions to a problem should be explicit. Various alternatives should be assessed in terms of how well they might resolve the problem, the broader consequences and side effects they may have and the technologies and institutions required by each during implementation and future operation. Alternatives which make optimum practicable use of recipient country capabilities and resources and provide for indigenous institutional development during design, implementation and operations are preferred.

2. Using AID Experiential and Technical Information

AID's Office of Development Information and Utilization (S&T/DIU) is a major source of development, experiential and technical information. As such, it is a resource which can be useful in all stages of a project's lifetime, especially in the identification and design stages. DIU can provide technical, project design, and project evaluation reports on projects which have addressed specific problem areas. It is also a source of "lessons learned" from prior or ongoing development undertakings that can be of value even at the initial "idea" stage. A form to request S&T/DIU research support is provided in Appendix 2B of Chapter 2. Regional Bureaus and technical offices readditional sources of information.

1B

3. Weighing Alternatives

Some criteria for selecting among problem-solving alternatives are discussed in Appendix 1A. These criteria are not the exclusive bases for selection, however, and Missions or Bureaus may wish to devise additional criteria based on the Foreign Assistance Act, AID policy, and their own CDSS or CPSS. Throughout the project development process, choices between solutions to the problem or methods may change as new information comes to light; therefore, the process should be a continuing and collaborative one involving AID, recipient country officials and the project participants/beneficiaries. Use of the Logical Framework will help designers during these stages.

4. Submission of Project Ideas

Project ideas are presented for approval in the form of a Project Identification Document (PID). (See Chapter 2.) Field submission of PIDs to AID/W is encouraged throughout the year to permit orderly project development based on the needs of the project and to avoid having inadequately prepared projects submitted to meet budget or programming deadlines. Projects are in competition with each other and, even when given preliminary approval, may be subsequently disapproved due to delays, technical deficiencies, AID budget constraints or funding shortfalls. Therefore, originating offices are encouraged to identify and submit project ideas somewhat in excess of expected country program funding levels.

5. The Logical Framework Approach

To assist in defining the best solution to a development problem and to enable AID personnel and others to review the elements of the proposed solution and assumptions related to it, the Agency uses the Logical Framework Matrix, a methodology for articulating project elements. (See Appendix 2F.) Although background information available at the PID stage and definition of project components are seldom adequate for a fully developed Logical Framework, the AID Project Committee should have this analytical tool in mind as investigations and consideration of alternatives proceed. At the PID stage, the Goal (overall sector or program development objective) should be succinctly stated, and project Purpose (solution to a problem or related group of problems) should be identified. The Outputs (means of achieving the Purpose) may still be tentative at the PID stage, subject to change or verification when additional information is available, and alternative Outputs may still be under consideration. The likely Inputs and implementation strategy should appear in outline at this stage.

1B5

At the Project Paper (PP) stage, all four target levels in the Logical Framework [i.e., Goal, Purpose(s), Output(s), and Input(s)] should be fully defined. There should be confidence that the project, at the time presented, is the best alternative vis-a-vis the other planning alternatives. When the PP is prepared, all pre-approved data collection and analysis should be completed. Finally, the alternatives as to implementation, details of Inputs and Outputs, technical features of the project, methods of procurement and financing and monitoring systems should be selected, and an evaluation plan outlined.

1C. Programming and Design Considerations

A variety of factors, including the considerations contained in Handbook 2 and in supplementary programming guidance, influence the choice of projects and of financing and implementation approaches. The prior accorded such factors will change over time, and new considerations will be added, as policy and legal concerns -- such as those expressed in the Foreign Assistance Act -- evolve. A partial list of such programming and project design considerations is provided below. Many of these are the subject of special policy determinations (see Handbook 11).

1. Concentration of AID Assistance

AID should concentrate its assistance efforts in areas of development where AID has a comparative advantage in providing such assistance. These efforts should support recipient country programs and needs.

2. Consolidation of Assistance Activities

AID programming, project support and implementation monitoring roles and responsibilities must be compatible with projections for mission and/or AID/W staffing resources. Missions should focus activities on a few important sectors so that AID assistance can be effectively delivered and achieve maximum impact with available funds and staff. Wherever possible, project activities should be consolidated to minimize paperwork and administrative burdens for both AID and the Borrower/Grantee. Mission and regional or centrally funded activities should be coordinated to maximize development benefits and operational cost savings.

1C

3. Donor Coordination

Missions should be aware of the objectives, levels and scope of other donor activities in a country, be alert to opportunities for joint assistance efforts and avoid duplication or competition within or between sectors. In some cases, the co-financing of development projects by AID and one or more other donors may be desirable, and Missions should explore such opportunities. Increased donor coordination may be particularly appropriate if, e.g., because of the relatively small size of AID's assistance effort or mission, it is difficult or impossible for AID, by itself, to effect desired policy changes or to administer a specific type of project. The sharing or exchange of design, supervision and evaluation expertise is highly encouraged. Complementarity and the integration of AID assistance and financing instruments with those of other donors should be pursued wherever practicable.

4. Use of Intermediaries

Use of intermediary assistance vehicles, such as the private sector, Private Voluntary Organizations (PVOs), the Peace Corps, universities, cooperatives and others may maximize development benefits and operational cost savings, particularly in smaller or more widely dispersed projects.

5. Title XII

Project designers should consider ways in which they can more effectively ensure the participation of U.S. agricultural universities in projects which help strengthen human skills and knowledge and institutional capabilities for the purpose of solving developing countries' food and nutrition problems. Title XII activities are those which: (1) develop an LDC capacity for research, training and/or extension; (2) train participants; (3) conduct research; (4) build or strengthen related institutional infrastructure and/or; (5) provide university advisors in agriculture, aquaculture, nutrition, agriforestry and other closely related fields. Since it is intended that Title XII activities be carried out, if possible, by Title XII institutions (normally agricultural universities), it is essential that missions identify such activities at a very early stage in project development. Project descriptions should contain the notation "XII" and the Project Identification Document (PID) should include a well-thought-out statement of project needs.

1C5

For more complete information on the application and implementation of the Title XII mandate, see Handbook 1, Policy Determination 4, Policy Directive on Title XII.

6. Integration of P. L. 480 and HG Assistance

P. L. 480 Food Assistance and Housing Guaranty (HG) programs should be integrated into the country assistance effort. P. L. 480 assistance focuses on constraints and opportunities in a country's food production program, including food chain and policy issues but, to the extent possible, it must be compatible and coordinated with other AID-supported programs and projects. HG activities should likewise be compatible and coordinated with other AID-financed undertakings.

7. Population Growth Approaches

Missions are encouraged to explore a variety of ways to pursue reductions in population growth through, e.g., direct support to recipient country programs, assistance to private or voluntary groups and adaptation of project designs to help support this objective. Missions should explore opportunities to add to new or existing projects in primary health care or other fields elements that will lay the groundwork for a more positive family planning climate. The focus should be on encouraging a recipient country to give greater consideration to population growth issues, on the adequacy of the country's strategy for dealing with the subject, and on the extent to which AID-financed projects (in education, health, rural development, etc.) can be incentives or vehicles to pursue population activities more vigorously.

8. Environment and Energy

Missions are encouraged to increase their knowledge of the physical environment of the recipient country and to explore opportunities for assistance in basic resource management, especially environmental and natural resource problems that have impact on a country's ability to provide for basic human needs and to meet development goals. All project design should consider energy supply and utilization as a factor in determining the feasibility of the projects. In general, AID assistance in the energy area should focus on providing equitable access to energy resources, on renewable and small-scale energy development, and on studies and training in broader energy concerns. (See Appendix 30.)

1C

9. Women in Development

*

Gender considerations must be factored into the design of all country strategies and, where appropriate, projects and programs. If such consideration is deemed inappropriate, or is difficult to achieve, Bureaus/Missions will ensure that there is a substantive analysis as to the obstacles preventing completion of such efforts and an explanation of how these obstacles will be overcome. Recent legislation and legislative history direct AID to incorporate women as beneficiaries of, and as contributors to, its development activities at the level proportionate to their participation in the sector of development activity or to their representation in the total population, whichever proportion be higher. The participation of women and the likely impact of a project on them as a group must be discussed at successive stages of project identification and development. Project documentation must discuss potential benefits and impediments to women's participation. AID must design strategies that overcome constraints to, and take advantage of opportunities for women's participation, and must establish benchmarks to measure progress in implementing these strategies. Groups of the population which would be disadvantaged by a project must be identified and remedial action considered. *

10. Flexibility of Design and Project Impact

Project design and implementation personnel must have a clear understanding of project responsibilities, implementation approaches and intended project impact. Design features should, nonetheless, embody sufficient flexibility to enable pursuit of project objectives and realization of impact even though the project and its environment may change during the implementation phase. In this respect, there are no inherent policy impediments to a project which contains significant infrastructure components if it is well designed and purports to have a positive impact, either directly or indirectly, on primary beneficiary group, e.g., the rural port, through primary or secondary employment, increased income generation or provision of services.

11. General Project Assistance Requirements

General statements of AID policy and AID Policy Determinations are found in Handbook 1; more specific policy statements are found in other Handbooks. A partial listing of other AID requirements which influence the project development and implementation process are noted below:

-- Length of Project Guidelines (Appendix 1B)

* Revised

-- Utilization of "Logical Framework" (Appendix 2F)

-- Recipient Country Contribution to the Activity (Appendix 2G)

-- Environmental Procedures (Appendix 2D)

-- Implementation and Procurement Responsibility of Borrower/Grantee (Appendix 3H)

-- Pre-Implementation Actions (Chapter 9)

1D. Program Development and Support Funds (PD&S)

1. Purpose

This section prescribes general procedures for the utilization and management of PD&S funds.

2. Definition

Program Development and Support - PD&S refers generally to the series of broad, non-specific program-funded activities, the purpose of which is to fund appropriate development-related activities, below the level of a formal AID project as defined in Handbook 3. Generally, program development and support refers to activities whose purpose is the identification, design, support, and evaluation of programs, projects, or activities (including pilot activities) where such activities cannot be easily or appropriately charged to an individual project or activity. Bilateral or other specialized projects that have been separately authorized as part of the OYB/allotment process and notified to Congress such as a technical feasibility studies project are not PD&S. However, a cluster of activities under a limited scope grant agreement may be PD&S.

3. Uses of PD&S Funds

The following types of activities represent uses of PD&S funds which may be undertaken without special justification or approval, and an approved Project Identification Document (PID) is not a prerequisite for funding:

a. Project or program development, feasibility studies, operational research, and pilot testing of hypotheses which may lead to a final project design or to the exploration of new program directions.

b. CDSS-related studies, sector assessments, or other special studies which enhance policy dialogue efforts or lead to a better understanding of technical or institutional constraints.

c. General purpose activities such as seminars, workshops, and special economic, sectoral or statistical surveys and studies which cannot be associated with a single, discrete project. This category includes the publication and other dissemination of appropriate research and technical studies.

d. Small exploratory research activities or support thereto, including state-of-the-art surveys/studies required for preliminary program explorations.

On an exceptional basis and with justification to and approval by the mission director or the equivalent in AID/W, PD&S funds may be used for the following:

a. Evaluations and financial management/audit activities not otherwise budgeted in specific project, program or other agreements. However, it should be stressed that all project design documents should include funds for evaluation and, if deemed necessary, funds for audit or financial management review.

b. Reasonable pre-project implementation costs or bridge funding between terminating and follow-on projects.

c. Program costs associated with monitoring or auditing non-project activities such as non-project assistance under the Development Fund for Africa (DFA) or other forms of sector assistance, PL 480, and CIP, when the relevant program assistance agreement does not contain funding for such purposes.

d. Program costs associated with monitoring or auditing HC-owned local currency when local currency is unavailable for this purpose.

e. Travel or short-term training costs of host country public or private sector counterpart personnel when other funds are unavailable for this purpose.

4. <u>PD&S Funds Prohibitions</u>

PD&S funds are not to be used for the following:

a. Any operating expense (OE) type activity as defined in AID Handbook 19, Chapter 11(B)3(a) or any type of activity whose primary purpose is the provision of management support to the Agency and would be considered as part of AID's normal cost of doing business. For example, PD&S funds cannot be used to fund a PSC performing predominantly OE activities.

b. Discrete project activities except in those exceptional cases listed in paragraph 1D3.

c. Commodity procurement except where specifically justified to and approved by the regional or central bureau Assistant Administrator, or their designee. Incidental procurement of expendible items in connection with procurement of services that are otherwise permissible under this guidance is not prohibited.

d. Specific activities in excess of one year's duration or in excess of $500 thousand except where specifically approved by the regional or central bureau Assistant Administrator.

e. Limited scope grant agreements that require a 25% host country contribution to fund PD&S activities obligated under the grant, unless it has been met or waived. This prohibition does not apply to grants which do not require a 25% contribution such as ESF-funded, regionally-funded, multi-donor or Sahel grants.

f. Any activities construed as assistance to the host government whether or not under a limited scope grant agreement during periods when the country in which the assistance is performed is under statuatory prohibition from receiving assistance under the FAA.

5. PD&S Obligations

a. PD&S funds must be obligated within the fiscal year for which they are allocated. Field missions and AID/W offices in coordination with the controller should review, at least semiannually, PD&S unliquidated obligations to determine their validity and possible deobligation.

b. PD&S funds are made available to meet current year requirements. If funds are obligated under a limited scope grant agreement, the life of the grant cannot exceed or be extended more than one year beyond the end of the fiscal year in which the funds were obligated without specific approval of the Assistant Administrator of the bureau. Commitments can be made within the timeframe of the grant, but in no case can a commitment extend beyond the terminal date of a limited scope grant.

6. Allocation and Reporting of PD&S Funds

a. Allocation

It will be at the discretion of each bureau to allocate PD&S funds to their respective field missions or offices and to define reporting requirements. At a minimum, reporting should be required at least once a year. PD&S funds may be part of the mission's OYB or managed as part of a bureau's regional project, as deemed necessary.

b. Reporting

Each regional and central bureau responsible for use of PD&S funds should issue annual guidance to their field missions or offices which outlines Bureau allocation methods and reporting requirements, and reiterates or refers to Agency policy on uses and prohibitions of PD&S funds contained in this section. This annual guidance is to be issued at the beginning of each fiscal year for effective implementation.

APPENDIX 1A

CRITERIA FOR SELECTING AMONG ALTERNATIVES

There are a number of points during project design and in the course of project implementation when it becomes necessary to make choices. Early in the project design phase, choices must be made concerning which development problem to address, what action or actions to take to address a development problem, which technologies and institutions to use in the course of implementing a specific set of actions, etc. Later in the project cycle choices may have to made concerning activity sites (subproject selection), alternatives ways of gathering and analyzing information on project performance, different ways of shifting from a developmental to an operations phase of a project etc. At all of these points it is a good idea to have in mind a set of criteria form asking choices. The criteria will necessarily change depending on the specific choice a project committee is facing, but the principle holds for all such decision points in the life of a project.

In this Appendix the problem of choosing a "Best approach" from among a series of project ideas at a pre-PID stage in the design process is discussed. While the ideas in this section have special relevance to the problem of choosing from among several possible ideas, the process discussed here is relevant at a number of points in the design and implementation of development projects. At later points the specific criteria to be used to make a decision will be different from those discussed in the Appendix, yet the need to identify criteria, to find ways of ranking alternatives, and for displaying and comparing rankings is a recurrent one. Because the need to make choices is recurrent in projects, it is intended that this Appendix provide a general model for the process of examining alternatives.

When a project is proposed, there is an implicit assumption that the project represents the best alternative to the solution of a problem, and that addressing the problem represents a necessary activity for fulfilling overall development objectives. Resolving problems through the vehicle of project assistance is often a joint responsibility of the recipient country (or the implementing institution/entity and AID. The development plan of the recipient country and the Congressional Mandate for AID provide the basic framework and guidelines for establishing objectives and selecting problems and projects. The identification of alternatives will be done at the mission level. However, it is often the case that mission libraries and files do not contain a comprehensive record of the ways in which AID and other organizations have attempted

to solve specific development problems. To address the need for information on alternative approaches and past experience, and other development assistance aspects, the Office of Development Information and Utilization (S&T/DIU) was established. This Office is a service office and is not a participient in the project approval process. Information searches by this Office should, however, be a resource for the process of defining alternatives during early project identification and development.

The selection of a preferred alternative from along a number of project ideas requires thorough assessment and the exercise of professional judgment. No single mechanical process or criterion can replace informed judgment in this selection process. Further, it is important to note that at the point where this choice is normally made, it must generally be made without full information on the various options that are being considered. Despite the fact that there is often a scarcity of information, important factors that are part of each project idea under consideration need to be examined. First there are factors to be considered when choosing among projects, i.e., when choosing which development problem or subproblem to address -- selecting a specific Purpose or End to be achieved by a project. Secondly, there are choices about what Means (or Outputs and Inputs) to use in the project.

In both choices, project designers need to be able to order or rank options in a simple manner that shows how they compare to each other in terms of the factors, or criteria, selected as being important to the decision. The simplest ranking system is an ordinal system where the designers score options as being best, next best, third best, etc. Such a comparative ranking can be made on a number of different factors as the figure below suggests:

	Option A	Option B	Option C
Factor 1	1	3	2
Factor 2	2	3	1
Factor 3	1	2	3

Rankings of this sort shouldn't be added together since they are only ways of expressing a general sense of the order of options. On the other hand, these rankings can help in making decisions. For example,

if it is believed that all factors are of equal importance, a conclusion can be made that Option A, in the figure, is the best choice. On the other hand, it may be that Factor 3 is the most important factor, and that all we want to do is choose an Option that does best on Factor 3, if it doesn't rate poorly on any other factor. In the chart above the choice would again be Option A, but in another example or in a real decision process this kind of thought process could help to eliminate undesirable options while leaving one or more options open for further investigation.

During the pre-PID stage of project development a number of factors should be considered, even though the information on each may be limited. The factors listed below should be considered at the pre-PID stage for almost any AID undertaking, but the weight given to each will vary from country to country, sector to sector, and project to project. When specific decisions are to be made concerning the alternative problems to be addressed or the alternative means for addressing a specific problem, the designer should examine this list and select appropriate factors to consider together with factors that are important in terms of the country, sector and specific project environment in which project assistance is to be proposed. Working with the list below and list of other factors developed to suit the specific case, designers should develop a matrix of the type illustrated above. Once the matrix is constructed, information about each factor and option should be used to develop simple, judgmental rankings. The rankings should facilitate the selection of the "best" option for the overall project idea, and subsequently in making choices about specific elements of a general project idea.

The use of a ranking matrix is a suggested, but not required, approach for examining the merits of options at various choice points in project design and implementation. Converting judgments into rankings and arranging them in tabular or other form may produce insights beyond information available from the ranking or individual judgments.

Factors to be Considered in Making Initial Choices from Among Project Options

1. Problem Priorities

The problem to be solved must be of a nature and priority which merits expenditure of AID funds. The number of apparently beneficial projects which might be undertaken in any country is huge. The task facing the AID and recipient country decisionmakers is to select the most critical (and soluble?) problems for solution. While the problem may be posed or identified in the Country Development Strategy Statement (CDSS) or the country's National Development Plan, it must be considered in the light of legislative and AID policy statements, as well as in terms of its overall soundness.

2. The Project Area and People Affected

A project which, directly or indirectly services the largest number people in the target area or in the beneficiary population, increases income, employment, and/or well being and otherwise addresses equitable access to basic needs should be a preferred alternative. Interventions which assist the greatest number of low-income people to increase their productivity and to increase their net earnings are perferred alternatives.

* Projects which help people in lower income groups, especially in agriculture production and small-scale service industries and those that focus on women's needs, should be emphasized. An important Agency goal is to optimize the use and expansion of women's productive capacity to ensure sustainable economic and social progress. *

3. Institutional Development and Self-Help Measures

a. The Alternative selected should be one which makes an optimal contribution to indigenous institutional development and self-help efforts. One of the primary concerns of any project is to leave in place a functioning capacity to manage, fund, maintain, and operate the institutions and facilities developed, improved, or establish through assistance projects.

b. A project which maximizes use of the private sector and local institutions will normally be preferred to one which depends more heavily on funding institutions. The use of local and private institutions provides experience and earnings for local people and provides a vehicle for the development of management capability and institutional cohesion. The development of local capability gained during project development and implementation makes the recipient country less dependent on outside assistance after the project is completed. Collaborative and joint efforts are given a high priority in AID's legislation, especially when participation of intended beneficiaries is secured.

4. Cost and Benefits

a. Normally a project which achieves its purposes at the minimum total cost is preferred alternative. Where sized benefits are quantifiable in monetary terms, the consideration of a discounted stream of costs and benefits may help to determine the most desirable project and, therefore, the preferred alternative. Alternatively, projects can be evaluated from a cost-effectiveness perspective -- i.e., determining the most effective solution for the least cost or the least costly solution for an anticipated level of effectiveness.

* Revised

b. Caution is necessary here, however, because so many assumptions must be made as to future cost, present and future benefits, the social and economic climate, and future developments in the international and LDC economies, that calculated internal rates of return and predicted cost-benefit ratios themselves represent numerous assumptions. While it probably can be assumed that below some minimum calculated internal rate of return some projects should not be considered, it does not follow that projects which exceed the minimum or even higher IRR's will necessarily contribute to achieving development objectives. A benefit-cost comparison between alternative projects can be a valuable guideline in helping to determine the preferred alternatives, but only when the purpose served and the problem solved by the project are clearly demonstrated to contribute to overall economic and social development in accord with AID and recipient country criteria. One cannot drew a direct cause and effect relationship between a predicted high benefit-cost ratio and the achievement of development assistance objectives, without consideration of risk climates and other criteria.

5. Labor Utilization and Capital Saving Features

A project which maximizes the use of local labor and minimizes the investment in capital, imported materials and equipment without a significant decrease in the quality and timing of the project or increase in its total cost, is to be preferred. Analysis of the labor intensity of the technology required for various alternatives will reveal projects which will provide greatest employment opportunities for local personnel, both during the implementation phase and after the project is completed. (See Policy Determination 48, 10/2/72, entitled "Employment and Income Distribution Objectives for AID Programs and Policies.") Notwithstanding, the appropriateness of the technology and social, management and implementation risks must also be carefully weighed. The reliance or impact of a technology or project on the private sector and energy resources must also be considered.

6. Participant and Beneficiary

A preferred project can predict and utilize the motivation of participant and beneficiary populations and institutions. Motivations of the various sectors of society, of the beneficiary population, and of implementing agencies and officials have a great bearing on project success. These motivations should be identified during the project analysis, and actions planned to take advantage of them or to modify them as necessary in the course of the project. The willingness of recipient country personnel to consider this aspect of project selection and design may indicate a preferred alternative and increase the probability of achieving project objectives.

7. The Target Area - Intersectoral Relations

Projects for which interaction and dependencies with other sectors are fully assessed and understood normally present a preferred alternative. All projects are affected by the institutional environment within which they are implemented and operated. Where the effects of interactions and dependencies are difficult to predict or control, the chances of project success are reduced. Careful analysis and understanding of these factors is essential to project success. Ways must be found to minimize negative cross-sectoral effects or to include within the project itself means of modifying negative and enhancing positive intersectoral effects. A sector analysis which includes these factors will simplify selection of the preferred alternatives.

8. Project Area- Environmental Concerns

Project alternatives which minimize detrimental impacts on or improve the overall ecology and physical environment are normally preferred. Preliminary environmental assessments of the various proposed alternatives should reveal the extent to which the environment will be degraded or improved by the various alternatives. All development projects of significance will have an environmental impact which must be analyzed. The impact can be either beneficial or detrimental or both. It cannot be assumed that small projects or a series of small projects will have an insignificant impact solely because of their size. For instance, poorly designed rural roads can create flooding, drainage, and erosion problems. Small irrigation systems can increase the incidence of malaria and Schistosomiasis. Normally, alternatives in project design and implementation can be found which will mitigate these effects. Care and consideration of alternatives be competent professionals is the best insurance in selecting the preferred alternative.

APPENDIX B

AID POLICY ON LENGTH OF PROJECT INVOLVEMENT

A. Applicability

This guidance applies to all AID dollar-financed projects to foreign governments, foreign government agencies, and international organizations having membership consisting primarily of foreign governments, whether financed by loans or grants, and whether they are in the nature of capital or technical assistance or research projects, except that some specialized activites are excluded. Except as provided in paragraph C below nonproject assistance is not covered by this guidance, nor are certain specialized activities such as: grants under Section 214 of the Foreign Assistance Act of 1961, as amended; Housing Guaranty projects discussed in Handbook 7; Operational Program Grants; grants under Handbook 13 - Grants; or activities under International Disaster Relief or Contingency Fund appropriations.

B. Definitions

1. Implementation Period

Project implementation begins with the obligation of AID funds by the signing of a Project Agreement for bilateral projects or the incurrence of the initial obligation for nonbilateral projects. The Implmentation Period extends until the inputs from all sources have been provided and implementation activities completed

2. Project Assistance Period and the Project Assistance Completion Date

The Project Assistance Period begins at the same point as defined above for project implementation. It is a planned interval which may be shorter than the overall Implementation Period because it only pertains to AID-financed assistance. Its end is the expected date by which all AID-financed services under the project will have been performed and all AID-financed goods under the project will have been furnished. This ending date is the Project Assistance Completion Date (PACD). The initial PACD is a planning figure and is specified in the Project Agreement or other obligating document.

3. Life of Project

The Life of Project, as the term is used here, is defined as the initially planned length of the Project Assistance Period. Its end is the PACD,[1] stipulated in the Project Agreement.

1/ Some existing Loan Agreements have a Terminal Disbursement Date (TDD) instead of the more recently used PACD. For comparative discussion purposes, the "PACD" of such older projects could be considered as being the TDD minus the approximately 9-month long period in which invoices are accepted for processing and payment under the PACD concept. (See Chapter 7.B.7) For some existing grant agreements, the corresponding date is the Final Contribution Date.[Footnote 1 to be inserted]

4. Monitoring Period

Although the last date for furnishing project inputs, in money or in kind, which the other party (or parties) to the Project Agreement has (or have) agreed to provide is frequently the same as the PACD, the overall project implementation plan may call for a later date. In such cases, the period during which AID monitors the project will be expanded to cover the period between the PACD and the date by which inputs furnished by others have been provided and/or the project completed. In any event, monitoring of the project should continue to the extent recommended in the Project Assistance Completion Report and approved by the official having portfolio supervision responsibility (See Chapter 14.)

C. Guidelines for Determination of Length of Project

The design of a project, including planning for its implementation and the timing of contributions by parties to the Project Agreement will result in the estimation of:

(1) the date by which the Project Agreement will be signed and/or financing obligated;

(2) the date by which AID will have completed its contributions for the project (the PACD); and

(3) if later, the date by which all other contributions to the project will have been completed.

The initially planned Life of Project, from obligation of AID funds through the PACD, should normally not exceed six (6) years; a somewhat longer period, if required for the delivery of AID-financed inputs is, however, acceptable. If a substantially longer period is necessary for the delivery of AID-financed inputs, serious consideration should be given to designing a project in phases, the first of which could be completed within or close to a period of six years.[2] Proceeding to the next phase would be contingent on a satisfactory evaluation of the previous phase. However, funds made available on a grant basis under Chapter 1 of Part I of the Foreign Assistance Act (Section 103-121) and funds made available under Chapter 4 of Part II (Security Supporting Assistance - Sections 531-533) may not be obligated or committed to be expended over a period exceeding five years at any one time. (This restriction does not rule out appropriate use of incrementally funded agreements where a commitment is not made for future increments beyond this timespan.)

If the activity in question is funded on an annual basis, e.g, a technical support activity, the individual Project Assistance Period(s) can cumulatively extend well beyond the six-plus years guideline discussed above. This is acceptable since the assumption

is that the overall activity is being periodically evaluated as if it were a single, longer term project. Project designers and reviewers, however, must take steps to see that this is in fact done. Continuing an activity for many years solely on the basis of single year examinations and approvals is not necessarily a good practice and can generate incorrect conclusions as to overall project viability and relative priority.

(Footnote 2: FAA Section 110(b) limits the disbursement period for bilateral grant-financed capital projects to three (3) years; that section applies to Development Assistance provided through the functional accounts under Sections 103 through 106 and not to Supporting Assistance, and excepts grants to countries determined to be Relatively Least Developed Countries (based on the UN Conference on Trade and Development List of Relatively Least Developed Countries). More detailed requirements or restrictions are discussed in Chapter 5, Authorizations.

CHAPTER 2

PROJECT IDENTIFICATION:
THE PROJECT IDENTIFICATION DOCUMENT

CHAPTER 2

PROJECT IDENTIFICATION

THE PROJECT IDENTIFICATION DOCUMENT

2A. Definition

The PID is the first formal document in the process which leads to the approval of a specific project; it serves as a bridge from programming analysis in such documents as the Country Development Strategy Statement (CDSS) and Annual Budget Submission (ABS) to project development and subsequent financing decisions. Actions to develop a PID, in general, follow country strategy and program funding level decisions. The PID identifies a project to implement those decisions in part, and seeks approval for further development of the project.

2B. Purpose

A PID presents in a preliminary summary of a project proposal. The proposal should reflect and support recipient country and AID development strategies for that country (or group of countries for AID regional and centrally funded projects). The PID should move from programming generalities to project specific and reflect Mission or Office considerations and selection decisions as discussed in Chapter 1, Principles of Project Selection. It should establish goals to be supported and purposes to be achieved by the project; identify intended beneficiaries; give preliminary indications of the shape and cost of the perceived project; and identify major issues. A basic purpose of the PID is to convince AID management that the preliminary proposal has merit, that it seems better than alternative solutions to the problem, and that it makes sense to devote personnel and financial resources to further develop the project. The PID should not be submitted until the proposing office believes that there is sufficient information to judge that staff and financial resources should be directed to fully analyze the proposed project. Discussion with the recipient country should not reach a degree of U.S. commitment that would cause problems if AID did not approve the project. The PID should be submitted when it is ready; its submission should not be tied to the submission of other planning, budget or programming documents.

2C. Content of the PID

1. Each PID has a facesheet bearing the signature of an authorized officer of the originating office. The facesheet provides summary data to highlight key elements of the PID. Instructions for completing the AID facesheet are printed on the back of each form (see Appendix 2A). It is not expected that information in the depth and detail necessary for final project approval will be included in the PID. PIDs should be as concise as possible and generally not more than fifteen single-spaced pages in length.

2. The PID should cover:

a. Program Factors

(1) Conformity with Recipient Country Strategy/Program

(2) Relationship to the CDSS (or other Strategy Statement)

b. Project Description

(1) Perceived Problem

(2) Project Goal and Purpose

(3) Expected Achievements/Accomplishments

(4) Project Outline and How it Will Work

c. Factors Affecting Project Selection and Further Development

(1) Social Considerations

(2) Financial and Economic Considerations

(3) Relevant Experience with Similar Projects

(4) Proposed Borrower/Grantee and/or Implementing Agency

(5) AID Support Requirement(s) and Capability

(6) Estimated Costs and Methods of Financing

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(7) Design Strategy

(8) Recommended Environmental Threshold Decision

(9) AID Policy Issues

Attachments:

Preliminary Log Frame
Initial Environmental Examination, if applicable
Waiver Request, if applicable

2D. Explanation of PID Subsections

1. Program Factors

a. Conformity with Recipient Country Program/Strategy - The policies and program of the recipient country (RC) are basic starting points in all AID bilateral programs. While the underlying discussion of RC development programs is contained in AID's country strategy documents, the PID should outline the specific RC program or objectives which the project would assist. The outline should identify these RC development plans and priorities, together with actions being taken or proposed by the RC in support of its strategy or the proposed AID effort. It should identify actions which the Mission (or originating Office) believes are required for the project to succeed. For regional and centrally funded projects, this may require reference to the strategies of a group of countries or to that of an AID/W Bureau.

b. Relationship to AID Strategy Statements - In progressing from program strategy to project specifics, the PID should explain how the project responds to the Mission CDSS or Bureau CPSS. It should discuss the priority of the proposed project in the context of the RC and AID strategies and how the project relates to other AID-funded activities. The PID should also describe what other donors or organizations are doing, or planning to do, which complements the AID proposal. Be brief. Do not repeat the CDSS (or CPSS). All that is needed is enough information on RC and AID strategies so that the framework into which the project will fit is clear. Since development activities must remain flexible to respond to changing circumstances, the Originating Office may propose projects not necessarily compatible with the current strategy statement. In these circumstances, Missions need not wait until the CDSS is revised to submit a PID, but a discussion of how the project aligns with AID and RC objectives will be needed.

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2. Project Description

a. Perceived Problem - This section should clearly identify the problem the proposed project addresses. The problem is usually stated in terms of an undesirable situation which the project will improve or in terms of key constraints to development which may be lessened or removed by the project.

b. Project Goal and Purpose - The PID should contain a reasonably full discussion of goal(s) and purpose(s) of the project, and how the project serves these ends. The goal is usually defined in broader terms which reach beyond the capability of one project. The purpose is narrower and is expected to be achievable during the planned life of the project as a result of project outputs. The PID should have, as an attachment, a preliminary Logical Framework analysis (logframe). At the PID stage, the Goal and Purpose of the proposed project should be clear and complete. Of lesser precision at the PID stage are the project Outputs and Inputs. These will be fully developed at the Project Paper stage.

c. Expected Achievements and Accomplishments - This section of the PID should describe, in general terms, what the project is expected to do. Quantification of the project's anticipated results is not expected at the PID stage. The section should indicate, however, the general terms what the project will product, how end results will fit into the project's purpose, and what actions are envisioned to measure and evaluate the results against the stated objectives.

d. Outline of the Project and How it Will Work - The PID is too early in the project's development to fully explain what components parts it will have or to full demonstrate its feasibility. However, an outline of the project and its major parts should be presented. A brief statement of how the project is expected to be carried out, i.e., a preliminary sketch of implementation, should be included.

3. Factors Affecting Project Selection and Further Development

* a. Social Considerations - Consideration of social factors, including the definition and examination of project participants and intended beneficiaries based on gender disaggregated data, where appropriate, begins in the earliest stages of project identification. If deemed inappropriate, there will be included a substantive analysis of obstacles preventing such consideration along with a plan for overcoming these obstacles in following stages of project development. It should continue throughout project development so that knowledge of beneficiary populations can be applied on an integrated basis to *

* Revised

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✱ the merging project design, and so that future implementation and feasibility problems can be minimized. It should fully take into account the use and expansion of women's productive capacity to ensure sustainable national social progress. PID issues may or may not require specialized analytic skills, depending on the scope of the project and the extent to which project elements have been developed at the time the PID is submitted. (See Appendix 2C for further detail.) Considerable discretion may be used in determining the level of effort appropriate to a particular PID, but the following areas of concern should be briefly addressed: ✱

(1) Socio-Cultural Context: Briefly describe the socio-cultural context of the project area. Give particular attention to social, economic and political factors that demonstrate a need for the project, or which will affect project activities.

(2) Beneficiaries: Briefly identify the location, size and relevant socio-economic characteristics of the group(s) the project will benefit (both directly and indirectly) as well as group(s) that may be adversely affected. For indirect beneficiaries, explain how benefits are expected to reach them, and identify recipient country or Borrower/Grantee policies and practices that will facilitate or impede this process.

(3) Participation: Variations in access to productive resources, employment, basic services and information influence the capacity and willingness of men and women to take part in projects. The PID should indicate briefly how the proposed project will promote participation of beneficiaries during project design, implementation and evaluation.* Also indicate what social, economic and political factors and expected to facilitate or constrain participation with regard to project activities and objectives. Including those which are gender-related.

(4) Socio-Cultural Feasibility: Given what is known about planned project activities and the socio-economic characteristics of planned participants, briefly identify feasibility issues to be addressed during project development.

* For a further discussion of the concept of participation, see Appendix 2C (Socio-Cultural Considerations at the PID Stage).

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(5) Impact: AID's primary objective is to help people in developing countries meet their basic human needs through equitable, sustainable growth. PID's should show how projects will contribute to this objective, giving particular attention to the differential impact * of the proposed project on various local groups or socio-economic strata. Special attention must be given to the differential impact of the project on men and women, as appropriate. If women are not expected to participate in the project in approximate proportion to their traditional participation in the project's targeted activities (or their proportion in the population, whichever is greater), the PID must identify specific actions required to rectify this imbalance during the life of the project. Indicate whether activities initiated by a project can be sustained by recipient country or Borrower/Grantee organizations and participants after external assistance is completed, and whether * project activities can be spread and/or replicated.

b. Financial and Economic Considerations - It is important for project designers to focus on the financial and economic considerations of a project at the earliest possible stage. The differences between the financial and economic analysis are explained in AID Manual for Project Economic Analysis, October 1987, Section 2.5-2.7, pp. 13-16. Table 2.1, provides a summary outline. Financial and economic analysis done in the final stages of project development, i.e., just before the Project Paper is completed, will be too late to have much influence on design or a decision to approve, modify or disapprove the project. Both types of analysis must become an integral part of the project design.

Financial and economic considerations appropriate to the PID level decision should be undertaken simultaneously. They are, to a great extent, closely interrelated in the analytical process. Whether the PP analysis is to deal with the investment worth of a commercially operated project or the least cost determination of a non-commercially operated project, the results of the financial analysis are a necessary input to the economic analysis.

Considerations of economic aspects at the PID stage should include the following:

-- determine the appropriateness of investing the intended amount of scarce resources in the problem area or activity identified;

-- describe major categories of costs and benefits and, to the extent practicable, discuss the economic merits of the proposed concept;

* Revised

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-- examine the merits of the proposed approach in comparison to alternative uses of the same resources;

-- consider possibilities for achieving internal efficiency by use of different designs, implementation methodologies, etc.

* -- determine how the project might optimize the use and expansion of women's productive capacity to ensure sustainable national economic progress. *

The PID should specify the type of financial and economic analysis that is intended to be performed in the course of project development (see the description in Appendices 3D and 3E in Chapter 3 of this Handbook). The type of analysis chosen will have implications for design resources and the project development schedule. For example, if a cost-effectiveness (least-cost) analysis is chosen, analyze at least two alternative designs for comparison purposes. If major information deficiencies exist regarding the availability of the relevant financial and economic information, such deficiencies should be identified and steps to overcome them during project development discussed.

This problem may necessitate the installation of a financial and economic information system to produce the required data during the design and implementation stages. Unless these issues are carefully examined and delineated at the PID stage (and resources assigned to this task), the preparation of an acceptable PP with an adequate financial and economic analysis and justification is problematical.

c. Relevant Experience with Similar Projects - In developing a PID, the originating office should consider relevant experience with similar projects, focusing particularly on projects and project evaluations that have taken place in the same country. Available information on comparable projects, on the project area, and on the socio-economic characteristics of project participants, especially intended beneficiaries, should be assessed. The PID will summarize these assessments, focusing on seasons for successes and failures, and show how the proposed project will deal with problems identified in earlier projects. Where possible, the PID should identify gaps in the available information to be filled in subsequent project development.

d. Borrower/Grantee or Recipient Country Agency - The PID should identify which recipient country Agency (or Borrower/Grantee organization) is expected to participate in the project design and in implementation. Early consideration can give AID and the

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Borrower/Grantee (B/G) time to identify institutional, personnel or funding issues which may need resolving so that the B/G Agency's can to carry out anticipated responsibilities, and should identify any technical assistance and training needed to implement the project. Also consider what demands are likely to be made on the B/G or its Agency for contractor support. The assessments affect costs, staffing, training (including any needs for overseas training), organizational needs and the time span in which a project can be implemented. The PID should also indicate the extent to which entities which would carry out the project (B/G agencies, PVOs, etc.) agree that the PID will satisfy a real need, and how different groups will participate in implementation.

e. AID Support Requirements Capability - Mission and AID/W project responsibilities should be outlined and long-term staff implications for implementing and monitoring the project discussed. If critically needed Mission or other AID staff are not realistically going to be available, it may be impossible to proceed with the project or it may have to be revised to omit the most staff-intensive phases. The ability of the Mission to provide project support services to the contractors should also be assessed, and any issues should be identified in the PID.

f. Estimated Costs and Methods of Funding - In most PIDs, it will not be possible to accurately determine costs and/or methods of financing. The Mission (or originating Bureau) should, nonetheless, give its best estimate of the project's financial needs and mechanisms. Good judgment of the proper order of magnitude is more important at this stage than precise estimates of detailed cost components. The PID should indicate what AID will probably finance, and discuss the merits of loan or grant funding. A simple pro-forma budget should outline the major project elements, and their estimated cost, and show possible AID, B/G and other participants' contributions. If the PID includes a participant training component, the budget for that component should utilize the Training Cost Analysis system of standardized budgeting, as detailed in Handbook 10, Participant Training. Appropriate allowances for inflation should be made, particularly since the approved project may not begin for some time. Do not identify in this section the financial resources which AID or others will have to contribute to develop the project to authorization. This design cost is to be identified as part of the design strategy (see below).

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g. Design Strategy - This section should discuss the responsibilities of the Mission, AID/W, Recipient Country officials, (if different) the Borrower/Grantee and other donors and participants for developing the project to the Project Paper (PP) stage, and additionally assess the ability of each to meet these responsibilities. The PID should outline how the more detailed analyses, and other documentary parts of the PP will be undertaken, and should identify the type and source of professional skills required. The PID should also estimate the time and cost required to complete the design work. The AID staff committee responsible for developing the project should be identified. Finally, a recommendation for approval to proceed to the PP stage should be made. If the originating office wishes approval authority for the PP, although the funding proposed exceeds its delegated limit, the request should be included in this section of the PID. Notwithstanding authority of the Originating Office to approve the PP, if the office desires that AID/W review and approve the PP, a statement should be made and the reasons outlined.

h. Recommended Environmental Threshold Decision - Most proposed projects will require an Initial Environmental Examination (IEE), to identify reasonably foreseeable environmental impacts and to recommend any further necessary environmental evaluation. The Agency's Environmental Procedures (see AID Regulation 16, Appendix 2D to this Handbook) indicate when an IEE is required. The IEE is accompanied by a Threshold Decision signed by the officer signing the PID. This is reviewed with the PID and defines whether further Environmental Analysis (EA) or Environmental Impact Analysis (EIS) (see Appendix 2D for details) will be required in connection with project preparation. The IEE addresses the reasonably foreseeable impact of an action on the physical and human environment. If further environmental analysis seems warranted, the IEE should identify reasonable alternatives to the proposed action which should be evaluated in detail in an EA or EIS. The body of the PID may summarize the recommended Threshold Decision, and attach the IEE as an annex.

When a PID is approved, it could be determined that: (a) no further environmental examination is needed because the project is not likely to have a significant effect on the physical and human environment; (b) the project needs to be further developed before such a determination can be made, and, as an intermediate action, environmental expertise shall be included in the project design team; (c) environmental impact(s) is not

2D3h

significant enough to require an EA or EIS but still needs to be addressed in project design; or (d) the project definitely will require either an EA or EIS as a basis for final project design decisions. Regulation 16 defines the criteria for selecting either an EA or EIS. If decision (b) above is reached, a time schedule should be established to ensure an early decision on whether an EA or an EIS is needed.

i. AID Policy Issues - Project related policy or strategy issues on which the originating office wishes discussion, decision or guidance can be summarized in this section or in earlier parts of the PID. Also, the potential need for waivers of AID procedures or requirements should be discussed in this section, if sufficient details are known at this stage of project development. If AID/W approval is given on a requested waiver at the PID stage (e.g., approval by the Administrator), the project may be later authorized by the appropriate official as determined by project factors other than the waiver. (See Chapter 5, Project Authorization, for details.)

2E. Responsibilities and Procedures for Preparing and Processing PIDs

1. When are PIDS Prepared and Submitted?

a. PIDs for New Projects - A PID must be submitted for all new activities. PIDs may be submitted any time an idea or solution to a problem is sufficiently developed to satisfy preliminary judgments as to the concept's appropriateness and priority for allocation of development resources. Submission, review, and approval of PIDs is encouraged throughout the year (generally during the Fiscal Year prior to the intended year of Project Paper submission) to allow sufficient time to develop the project and to avoid having inadequately prepared documents submitted to meet programming or budget deadlines.

There is no specific deadline for the submission of PIDS. They may also be submitted for projects which are intended for approval and funding during the FY of PID submission.

b. PIDs for Second Stage an Add-On Type Projects

(1) Abbreviated PIDs may be prepared for the continuation and expansion of on-going activities where the basic development proposal and related policy issues have been addressed in the initial project and remain valid and essentially unchanged. The following types of projects are illustrative:

2E1b(1)

-- extension of an ongoing project, with or without additional elements, to increase its impact,

-- replication of an on-going project in a new geographic area.

NOTE: In virtually all cases, decisions to submit abbreviated PIDs should be based on project evaluations which confirm the essential validity of the project concept and design, and demonstrate positive impact. If a second stage project involves major issues or changes in concept or design which would make existing PP documentation misleading, full PIDs should be submitted.

(2) Information Requirements: The extent to which a PID can be shortened will depend upon the project circumstances in each case and the availability of current information in AID/W on the conduct of the initial project. The PID should at least: show how the project will conform to the CDSS; confirm the present validity of analyses in the earlier PP; indicate to what extent the follow-on or second-stage project will differ from the on-going activity in terms of objectives, activities and beneficiaries; define estimated costs, the project preparation strategy, and reconfirm (if appropriate) the prior environmental examination. New issues, if any, should be identified and discussed. Accomplishments and shortfalls of the original project should be summarized, drawing on pertinent evaluations. The elements of a PID which can be shortened for an essentially unchanged second-stage project include those where reference to existing documentation will be appropriate, or where summary presentation description and relation to the CDSS, project preparation strategy and the IEE are the sections which could be shortened or referenced depending on differences between on-going activities and the second-stage project.

c. Modifications at the PID Stage

If, after PID approval but early in the project development stage, significant modifications are determined necessary (see Chapter 13 for discussion), the Originating Office should cable or otherwise advise its Bureau about the proposed changes. The purpose of this advice is to keep AID/W informed and, if the modifications represent a significant departure from earlier precepts, e.g., major increase in development resources or project cost, to obtain Bureau clearance prior to committing such resources. If the proposed modification would result in an essentially new project with different objectives, then the old PID should be cancelled and a new one submitted.

2E

2. Where are PIDs Prepared?

PIDs are prepared by:

a. the AID Mission under whose direct auspices the development of the project is to be carried out. PIDs may also be prepared by a Regional Bureau Office on behalf of the Mission; and

b. the AID Bureau or Office which will have implementation monitoring responsibility for a project which is to be carried out in the field.

c. the entities described in a) and b) will be known in this chapter as "Originating Offices."

3. Who Prepares PIDs?

a. Developing a PID is the responsibility of the Project Officer, as assigned by the Principal Officer of a field post, e.g., Mission Director or, as appropriate, the Project Officer designated by the responsible AID/W Office or Bureau.

b. The recommended practice is to form a Project Committee for the preparation of the PID under the leadership of the designated Project Officer. The composition of that Committee will vary according to the nature and complexity of the project. Include personnel with analytical and experiential skills essential to the investigation and design of the activity.

c. Collaboration with Recipient Country officials and, as appropriate, Borrower/Grantee representatives, is encouraged during development of the basic PID concepts. However, such collaboration must not result in commitments being made on behalf of the U.S. Government to develop the concept prior to receipt of approval of the PID by AID/W.

4. Form of Submission

a. Regular PIDs

1) The outline desired is presented in Section 2C of this Chapter. The PID should be limited to 15 single-spaced, typed pages. PIDs for small, simple projects should be much shorter. The latter may be submitted by cable.

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2) The PID must be presented under the cover of a PID Facesheet (see Appendix 2A). (If a PID is submitted by cable, the Regional Bureau can prepare and sign a PID Facesheet on behalf of the Mission.)

3) PIDs may be accompanied by an Information Retrieval request (see Appendix 2B) whenever the originating office wishes a search for information concerning AID and other donors' past experience pertinent to a proposed project.

b. Abbreviated PIDs for Second Stage or Add-On Type Projects

Submission of the abbreviated PID in cable form is recommended. Missions should include sufficient information so that the PID Facesheet can be prepared and signed by the Regional Bureau.

c. PID Amendments

When required, changes in PID Facesheets and revisions in PIDs should be submitted to AID/W by cable.

5. Offices to which PIDs are Submitted

a. Field-originating PIDs are sent to the responsible AID/W Bureau.

b. PIDs originating in an AID/W bureau are submitted by the Director of the sponsoring AID/W office to the Bureau Assistant Administrator.

6. Bureau Responsibilities for PID Receipt and Review

a. Bureaus are responsible for maintaining a system for controlling receipt, processing and response actions for all PIDs.

b. Bureaus will establish their own procedures for processing and distributing PIDs, but in general the system will include:

-- Assignment of an office(r) to screen each PID for completeness before reproduction and distribution;

-- Designation of an office(r) having responsibility for organizing the PID Review Committee;

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-- Maintenance of a control log (see 8.d below);

-- Distribution of the PID, issues paper (when appropriate) and notification memorandum for Bureau PID review meetings.

c. Bureaus normally have two reviews of PIDs:

-- An informal review which develops the issues paper, and;

-- A formal review by the Bureau Project Advisory Committee (or equivalent), chaired by the Bureau AA or his designee. Committee representatives from FM, GC, SER/COM, SER/CM, and PPC attend both meetings when appropriate.

NOTE: If at the time of the PID review it is known that A/AID needs to approve the project or parts of it because of environmental, congressional or other policy issues, unresolved audit, questions, evaluation findings or waivers, the PID is referred to A/AID for concurrence and/or approval.

7. PID Reviews

a. The PID Review is chaired by the Bureau Assistant Administrator, or his/her designee. Abbreviated PIDs and PID amendments will be subject to the normal PID review and approval process.

b. The PID review is not intended to include detailed analysis of the project. It will vary depending upon nature of the project, but in general will focus on:

(1) merits of financing the proposed activity in the light of the overall AID country strategy (CDSS) and alternative activities which AID might otherwise support;

(2) consistency of the proposed activity with applicable statutory and policy criteria;

(3) potential impact of the proposed activity with respect to: basic human needs, equity, environment, women in development, energy utilization, etc.;

(4) priority attached to the problem by the Recipient Country government and/or Borrower/Grantee;

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(5) possible conflicts between the priority assigned to the project by AID and the views of the Recipient Country and/or Borrower/Grantee;

(6) whether the proposed solution is logical, reasonable and the best choice among alternatives;

(7) identification of deficiencies, if any, in the preliminary project concept and methodology;

(8) lessons learned from experience with similar projects;

(9) capacity of the Borrower/Grantee to implement the proposed project (i.e., personnel, institutional, financial resources);

(10) whether the Field Mission has the capability to monitor project implementation. If not, what arrangements must be made to assure that the capability will be in place at the time of implementation?

(11) capacity of the AID Mission to complete project preparation. If deficient, specification of arrangements to be made by the Mission and/or AID/W to provide information, personnel resources and funds on a timely basis. (Any specific request for information concerning past experience pertinent to the proposed project or for funds or staff to help prepare the PP should be addressed by the Bureau Review Committee.)

c. Some issues raised during the PID review may not be resolvable at the PID stage. If they are to be addressed later, appropriate recommendations of the Review Committee must be incorporated in the Bureau message to the Originating Office. If there are any major disagreements between Committee members about issues or the final decision to approve or disapprove the PID which cannot be resolved between Bureaus, such disagreements shall be referred to the Administrator or his/her Deputy for final resolution.

d. Projects which contain salary supplementation of host government employees must be submitted to AID Washington for approval by the appropriate Assistant Administrator. The definitions, rules on salary supplements and payments to individuals which are not considered to be salary supplements are contained in Handbook 1, Policy, Part VII.

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8. AID/W Decision on PIDs

a. The Responsible Bureau will review the PID and Review Committee recommendations and make a decision on the document and, if appropriate, on supplementary information thereto. The decision will usually be one of the following:

-- approval with appropriate guidance for project design;

-- conditional approval with explicit requirements for granting full approval, plus appropriate guidance for project design;

-- approval and guidance on project design, but withholding final project paper approval for AID/W, including citing the reasons therefor, or;

-- disapproval, including the basis for rejection;

NOTE: In some instances, the decision of the Review Committee may be to differ completion of the review until supplementary information or a revised PID is obtained from the Originating Office. As another option, an interim report giving information for one of the decision options cited above may be requested. However, these review or decision alternatives cause delays and additional paperwork and therefore, although permissible, should be used sparingly. In all cases, the decision document and communications to the Originating Office should be clear, concise and focused on essential concerns and instructions.

b. As a general rule, the AID/W decision on PID should be made within 30 working days after receipt of the PID, including necessary time for reproduction and distribution.

c. Notification of the decision on the PID and any PID guidance is given by cable for field projects and a memorandum of record for AID/W projects. Unless it advises otherwise, PPC must clear the decision and guidance cable to the field.

d. Each Bureau will maintain a Log on PIDs received and the actions taken on them and report such information to PPC as requested. As required, AA/PPC will prepare periodic reports for the Administrator summarizing the Bureau PID review and approval activities.

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9. Meaning of PID Approval

a. PAD approval means that AID/W has given its approval to proceed with the development of a Project Paper based on concepts defined in the PID. The approval may draw attention to certain issues in the PID document and require the Originating Office to make adjustments in the concept or take certain actions to address specific design matters during development of the project.

b. When a PID is approved for a project that could otherwise be authorized in the field and PP authorization authority is held in AID/W, the PID approval message must cite AID/W reasons for retaining PP approval authority.

c. Approval signals the Originating Office to proceed with necessary consultations with the proposed recipient and/or Borrower/Grantee and to utilize the resources necessary to bring the project to the PP stage.

d. Following approval of the PID, the Originating Office should constitute a Project Committee, designate a Project Officer and notify the recipient and participants of these designations. The responsible Bureau should designate an Office and staff responsible for backstopping actions, including follow-up technical support and Information Retrieval requests (see Appendix 2B).

e. If at any time the Originating Office decides to terminate or suspend project development activities on an approved PID, it should immediately notify the responsible AID/W Bureau and PPC by submitting a revised PID Facesheet, or asking the Bureau to do so.

Appendices:

Appendix 2A - PID Facesheet

Appendix 2B - Information Retrieval Request

Appendix 2C - Socio-cultural Considerations at the PID Stage

Appendix 2D - Environmental Procedures

Appendix 2E - Reserved

Appendix 2F - The Logical Framework

Appendix 2G - Recipient Country or Borrower/Grantee Contribution to the Activity

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT IDENTIFICATION DOCUMENT FACESHEET (PID)

1. TRANSACTION CODE
A = Add
C = Change
D = Delete
Revision No.

DOCUMENT CODE 1

2. COUNTRY/ENTITY

3. PROJECT NUMBER

4. BUREAU/OFFICE
A. Symbol
B. Code

5. PROJECT TITLE *(maximum 40 characters)*

6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION

A. Initial FY
B. Final FY
C. PACD

7. ESTIMATED COSTS ($000 OR EQUIVALENT, $1 =)

FUNDING SOURCE		LIFE OF PROJECT
A. AID		
B. Other U.S.	1.	
	2.	
C. Host Country		
D. Other Donor(s)		
TOTAL		

8. PROPOSED BUDGET AID FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. 1ST FY		E. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1)							
(2)							
(3)							
(4)							
TOTALS							

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

10. SECONDARY PURPOSE CODE

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

A. Code							
B. Amount							

12. PROJECT PURPOSE *(maximum 480 characters)*

13. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT

Staff:

Funds

14. ORIGINATING OFFICE CLEARANCE

Signature

Title

Date Signed MM DD YY

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

16. PROJECT DOCUMENT ACTION TAKEN

S = Suspended
A = Approved
D = Disapproved
CA = Conditionally Approved
DD = Decision Deferred

17. COMMENTS

18. ACTION APPROVED BY

Signature

Title

19. ACTION REFERENCE

20. ACTION DATE MM DD YY

AID 1330-2 (8-79)

INSTRUCTIONS

Block 1 - Enter the appropriate letter code in the box, if a change, indicate the revision number.

Block 2 - Enter the name of the Country, Regional, or other Entity.

Block 3 -Enter the Project Number assigned by the field mission or an AID/W bureau.

Block 4 - Enter the sponsoring Bureau/Office Symbol and Code. *(See Handbook 18 Appendix D.)*

Block 5 - Enter the Project Title *(stay within brackets; limit to 40 characters).*

Block 6 - Enter the estimated Initial (A) and Final (B) FY of the Authorization/Obligation, and Project Assistance Completion Date (PACD) (C).

Block 7 - Enter the information taken from the 'Estimated Cost Table' in the PID.

Block 8A. - Use the 'Alpha Code'. *(See Handbook 18 Appendix D.)*
Block 8B. - See Handbook 19, Appendix D for guidance.
Blocks 8C., D., & E., - Enter all amounts in thousands of U.S. dollars.

Blocks 9 & 10 - See Handbook 18, Appendix D for guidance.

Block 11 - Enter the code and amounts attributable to each concern for 'Life of Project'. For coding see Handbook 18, Appendix D.

Block 12 - Enter the 'Project Purpose' from the PID. If more than one (1), list each one (1) in order of priority *(stay within brackets; limit to 480 characters).*

Block 13 - Summarize any planning resources needed to develop the project in terms of staff and funding required. For staff, indicate whether direct hire or contract staff. Indicate the established amount and source of funding required (operative expenses or Mission funds).

Block 14 - This block is to be signed and dated by the Authorizing Official of the originating office. The PID **will not** be reviewed if the PID Facesheet is not signed and dated. **Do not** initial.

Block 15 -This date is to be provided by the office or bureau responsible for the processing of the PID.

Block 16 - This block is to be completed by the authorized representative of the office or bureau responsible for the processing of the PID.

Block 17 - Enter any comments on the action taken.

Block 18 - This block is to be signed and dated by the Approving Official. **Do not** initial.

Block 19 - Identify the action document i.e., memorandum, cable.

Block 20 - Enter the data of the action document.

INFORMATION RETRIEVAL REQUEST

This form replaces block 20 of the PID Facesheet dated 3-76. It will be used by the bureaus, the field missions and design teams to request information concerning past experience pertinent to a proposed project. It **must** be received by DS/DIU on a timely basis in order to ensure that a well targeted search is conducted and the results made available to the design team. It is recommended that it be submitted with the PID Facesheet, addressed to DS/DIU thru the Regional Bureaus, or directly to DS/DIU.

TO: DS/DIU DATE: _____

FROM: _____

Please forward the information 'X'ed' below, as soon as possible to: _____

A. TYPES OF INFORMATION OF PARTICULAR VALUE

☐ 1. Alternative approaches (purposes) for the problem

☐ 2. Alternative outputs for achieving purpose.

☐ 3. Technical information on outputs *(specify)* _____

☐ 4. Information on technical feasibility of similar projects

☐ 5. Information on economic feasibility of similar projects

☐ 6. Information on social soundness of similar projects

7. Information on host implementation/administration of similar projects
☐ Worldwide ☐ Culturally/geographically similar areas **only**

☐ 8. Project Evaluations

☐ 9. Knowledgeable Individuals

☐ 10. Expert Insititutions

☐ 11. Published literature (books/periodicals)

☐ 12. Other *(specify)* _____

B. SOURCES OF INFORMATION OF PARTICULAR VALUE *('X' key areas)*

☐ 1. AID

☐ 2. IBRD

☐ 3. Other international organizations

☐ 4. Other donors

☐ 5. Voluntary Agencies

☐ 6. Private industry

☐ 7. U.S. domestic experience

☐ 8. Other *(specify)* _____

APPENDIX 2C

Socio-cultural Considerations at the PID Stage

This appendix discusses salient participation and beneficiary matters that should be examined at the PID stage. What kinds of participation are feasible in the context of bilateral development assistance? Who should or can participate? And how can projects be designed to maximize participiption? Also discussed herein is the concept of "planned (or anticipated) beneficiary." Ideally, all participants should benefit from project activities.

I. Kinds of Participation

There are four important areas of participation during the project cycle - project design; implementation; benefit incidence; and evaluation.

A. Project Design

The most fundamental design decisions revolve around what is defined as the "problem" and what are possible "solutions." These initial decisions are important to the process of "project identification" and should involve local people and their leaders. Examples of possible decisions in which potential Borrower/Grantee and recipient country people should participate include:

- which local needs should be addressed as part of a project;
- what might the roles and responsibilities of local participants and others be;
- the location of specific project activities, particularly in projects involving construction such as irrigation canals, cattle dips, market roads, schools and health clinics.
- ways and means of developing the project. This may include: assisting in the definition of specific approaches to be taken to achieve project goals; advising on appropriate standards regarding type of building construction, width of roads, qualifications of local staff; planning how local community resources (land, labor, materials, money) may be used to help finance the project.

It is preferred that the counsel and participation of local people be obtained through existing or introduced community-level organizations, such as voluntary associations, religious groups and cooperatives. These organizations will be more or less participatory depending on such characteristics as membership requirements, their decision-making methods, strength and abilities of the organization's leadership, and the ability of such organizations to influence project activities.

When direct participation is not feasible, surveys and case studies may be used to identify needs and capabilities of local people. Information collection and analysis efforts are directed at initial problem identification and the definition of appropriate solutions and methods, i.e., location, technology, services, etc. Initial project development decisions will be based on careful examination of the data collected. Such decisions then should be reviewed, through subsequent surveys, if appropriate, by the local people concerned.

B. Implementation

Local participation during implementation may be achieved in two ways: through the contribution of resources; and by assisting in administration.

Resource contributions can take many forms, including the provision of labor, money, material goods, and information. All such inputs are vital to projects seeking to include local resources in the planned development effort.

Participation in administration is equally important. This may be achieved by hiring as many local people as possible to perform direct or project-related activities; including local representatives in project decision-making; or using local organizations to help promote and implement project activities. Helping with project management and administration increases local capabilities and self-reliance and helps make the project more responsive to local level problems, methods and opportunities.

C. Benefits

Projects may result in many kinds of benefits, e.g., those accruing to individuals only, those affecting people as part of a group (increased income or assets; improved consumption; or a better quality of life). However, aggregate increases in output or consumption are not necessarily sufficient to achieve participatory aims. To the extent feasible, benefits should be equitably distributed to the intended group(s), e.g., within or across regions, income strata or social units. Participation will be maximized when access to benefits is distributed as equitably as possible.

D. Evaluation

Local people may participate in evaluation in two ways. First, to the extent that project activities are formally reviewed, local people may be consulted in developing the issues to be examined during evaluation. Second, local people may be surveyed to assess their opinion regarding the success or failure of project activities. More comprehensively, local people might, during project operations, assist in an on-going review of activities and help search for other needs and priorities that the project could address.

II. Who Participates?

Local participation should be sought among four categories of people: local residents, local leaders, local government personnel and foreign personnel associated with the project.

Local residents constitute what is often thought of as the "target group" for rural development. However, they should not be seen as a homogeneous "rural poor majority," all of whom may participate in project activities with equal facility. Due regard must be given to internal differentiation along lines of occupation, location, land holdings and security, sex, caste, religion, tribe and so forth. Differentiation among local residents implies differential ability to share in planned project benefits. Although it will seldom be possible to include all elements of a population in the distribution of benefits, it is possible to maximize the equitable distribution of benefits by recognizing and planning to take into acccount existing constraints on participation. Most often, the direct participation of the majority of local residents will be limited to benefits; more indirect participation may be achieved by means of surveys associated with project design and evaluation.

Local leaders are those whose authority and legitimacy derive from the local people among whom they live. They may be of three types: administrative office holders, such as mayors, chiefs and village authorities; heads of local associations, such as cooperative societies and trade unions; and other persons whose views are respected in the community, such as clan elders, religious figures, successful farmers and merchants. Because local leaders are less numerous than local residents, and because they are more visible socially and politically, it is feasible to include them in a wide range of the project activities associated with design, implementation and evaluation. Their participation may thus be more direct than that of local residents. To the extent that local leaders represent sentiments and needs among local residents, direct participation on the part of leaders may substitute for direct participation on the part of local residents. Representativeness, of course, must be demonstrated, not assumed. Care must be taken to identify and avoid dealing exclusively with local elites or small factions.

Local government personnel may include national, regional or district level administrative officials, agricultural and veterinary officers, tax collectors, ministry officials, police and the like. Such personnel may or may not have ties to people in the area they serve; in any event their career is usually based more on performance within a bureaucracy than on the results of their actions in the places where they live and work. Their participation in project planning, implementation and evaluation must be as extensive as possible, since their local or career interests may lead them to promote, control or block various project activities. Therefore, to maximize the possible contributions that such officials may make, their participation in project activities should be compatible with or result in career advancement opportunities.

Consideration must also be given to the participation of foreign personnel associated with the project. These may include expatriates providing technical assistance, employees of private voluntary organizations, missionary personnel and so forth. It cannot be assumed that foreign personnel contracted to implement a project or oversee project operations are participating meaningfully in project activities; too often their role is limited to the giving of technical advice, reviewing voucher submissions or conducting rapid and widely-spaced site visits. Borrower/Grantee and AID personnel must review the quality of participation by foreign personnel and make adjustments in the activity to maximize their sensitivity to participation and their specific responsibilities and authorities with respect thereto.

III. Project Design for Participation

The sections above have outlined different kinds of participation and different kinds of participators. Participation is high when many types of people participate at many levels of project activity; participation is low when few types of people participate at few levels of project activity. In this section are outlined some aspects of project design which may be modified to insure relatively high levels of participation. No presumption is made here that all or even most of these parameters should be regarded as critical for each and every project. Rather, the intent is to outline a number of alternative and/or complementary ways in which participation may be designed into a project.

A. Complexity: Projects that require special skills or information, or which require complex planning or series of actions on the part of participants, are likely to be less participatory than projects which place fewer demands on participants' abilities.

B. Resource Requirements: Projects requiring substantial unit investments of resources (time, land, capital) will be less participatory than projects in which potential beneficiaries may "buy in" to project

activities with smaller commitments. A corollary is that projects which entail a sequence of small expenditures rather than a large one-time outlay will generally assure wider participation.

C. Relationship of Benefits to Investments: Projects requiring local investments must offer tangible benefits to the investors in order to be broadly participatory. Only narrow segments of anticipated beneficiary populations will be willing to invest their own resources in projects that offer low returns.

D. Probability of Benefits: The more certain people are that their participation in a project will confer benefits, the more likely they will be to participate. Thus, broad participation requires a high probability that benefits will be delivered. This probability must be perceived by all participants, not just implementing authorities.

E. Immediacy of Benefits: Participation may be expected to be high in projects that bring benefits quickly (e.g., constructing a much-needed road), and low in projects that require participants to defer benefits (e.g., reforestation). In agricultural production projects, for instance, only a narrow segment of the population may be able to wait more than one or two cropping seasons before benefits emerge.

F. Program Complementarity: Projects that provide needed linkages (e.g., a credit program that accompanies a fertilizer project) will be more participatory than narrowly-focused projects.

G. Program Flexibility: Projects that can respond to changing on-the-ground circumstances will be more participatory than projects that are locked into activities that cannot be adjusted to local needs over the life of the project.

H. Administrative Accessibiltiy: Projects in which local residents, local leaders, and local government personnel have clear and open channels of communication with implementing authorities will be more participatory than projects where communications are difficult or non-existent.

I. Compatibility with the Socio-Cultural Environment: Activities which are sensitive and responsive to socio-cultural preferences of all participants will be more participatory than projects that are done "by" one group "to" another group.

APPENDIX 2D

Environmental Procedures

These Procedures have been revised based on experience with previous ones agreed to in settlement of a law suit brought against the Agency in 1975. The Procedures are Federal Regulations and therefore, it is, imperative that they be followed in the development of Agency programs.

In preparing these Regulations, some interpretations and definitions have been drawn from Executive Order No 12114 of January 4, 1979, on the application of the national Environmental Policy Act (NEPA) to extraterritorial situations. Some elements of the revised regulations on NEPA issued by the President's Council on Environmental Quality have also been adopted. Examples are: the definition of significant impact, the concept of scoping of issues to be examined in a formal analysis, and the elimination of certain AID activities from the requirement for environmental review.

In addition, these procedures: 1) provide advance notice that certain types of projects will automatically require detailed environmental analysis thus eliminating one step in the former process and permitting early planning for this activity; 2) permit the use of specially prepared project design considerations or guidance to be substituted for environmental analysis in selected situations; 3) advocate the use of indigenous specialists to examine pre-defined issues during the project design stage; 4) clarify the role of the Bureau's Environmental Officer in the review and approval process and 5) permit in certain circumstances, projects to go forward prior to completion of environmental analysis.

Note that only minimal clarification changes have been made in those sections dealing with the evaluation and selection of pesticides to be supported by AID in projects or of a non-project assistance activity.

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
Agency for International Development

22 CFR Part 216

Environmental Procedures

§ 216.1 Introduction.

(a) *Purpose.* In accordance with Sections 118(b) and 621 of the Foreign Assistance Act of 1961, as amended, (the FAA) the following general procedures shall be used by A.I.D. to ensure that environmental factors and values are integrated into the A.I.D. decision making process. These procedures also assign responsibility within the Agency for assessing the environmental effects of A.I.D.'s actions. These procedures are consistent with Executive Order 12114, issued January 4, 1979, entitled Environmental Effects Abroad of Major Federal Actions, and the purposes of the National Environmental Policy Act of 1970, as amended (42 U.S.C. 4371 et seq.) (NEPA). They are intended to implement the requirements of NEPA as they effect the A.I.D. program.

(b) *Environmental Policy.* In the conduct of its mandate to help upgrade the quality of life of the poor in developing countries, A.I.D. conducts a broad range of activities. These activities address such basic problems as hunger, malnutrition, overpopulation, disease, disaster, deterioration of the environment and the natural resource base, illiteracy as well as the lack of adequate housing and transportation. Pursuant to the FAA, A.I.D. provides development assistance in the form of technical advisory services, research, training, construction and commodity support. In addition, A.I.D. conducts programs under the Agricultural Trade Development and Assistance Act of 1954 (Pub. L. 480) that are designed to combat hunger, malnutrition and to facilitate economic development. Assistance programs are carried out under the foreign policy guidance of the Secretary of State and in cooperation with the governments of sovereign states. Within this framework, it is A.I.D. policy to:

(1) Ensure that the environmental consequences of A.I.D.-financed activities are identified and considered by A.I.D. and the host country prior to a final decision to proceed and that appropriate environmental safeguards are adopted;

(2) Assist developing countries to strengthen their capabilities to appreciate and effectively evaluate the potential environmental effects of proposed development strategies and projects, and to select, implement and manage effective environmental programs;

(3) Identify impacts resulting from A.I.D.'s actions upon the environment, including those aspects of the biosphere which are the common and cultural heritage of all mankind; and

(4) Define environmental limiting factors that constrain development and identify and carry out activities that assist in restoring the renewable resource base on which sustained development depends.

(c) *Definitions.*—(1) *CEQ Regulations.* Regulations promulgated by the President's Council on Environmental Quality (CEQ) (**Federal Register**, Volume 43, Number 230, November 29, 1978) under the authority of NEPA and Executive Order 11514, entitled Protection and Enhancement of Environmental Quality (March 5, 1970) as amended by Executive Order 11991 (May 24, 1977).

(2) *Initial Environmental Examination.* An Initial Environmental Examination is the first review of the reasonably foreseeable effects of a proposed action on the environment. Its function is to provide a brief statement of the factual basis for a Threshold Decision as to whether an Environmental Assessment or an Environmental Impact Statement will be required.

(3) *Threshold Decision.* A formal Agency decision which determines, based on an Initial Environmental Examination, whether a proposed Agency action is a major action significantly affecting the environment.

(4) *Environmental Assessment.* A detailed study of the reasonably forseeable significant effects, both beneficial and adverse, of a proposed action on the environment of a foreign country or countries.

(5) *Environmental Impact Statement.* A detailed study of the reasonably foreseeable environmental impacts, both positive and negative, of a proposed

A.I.D. action and its reasonable alternatives on the United States, the global environment or areas outside the jurisdiction of any nation as described in § 216.7 of these procedures. It is a specific document having a definite format and content, as provided in NEPA and the CEQ Regulations. The required form and content of an Environmental Impact Statement is further described in § 216.7 infra.

(6) *Project Identification Document (PID).* An internal A.I.D. document which initially identifies and describes a proposed project.

(7) *Program Assistance Initial Proposal (PAIP).* An internal A.I.D. document used to initiate and identify proposed non-project assistance, including commodity import programs. It is analogous to the PID.

(8) *Project Paper (PP).* An internal A.I.D. document which provides a definitive description and appraisal of the project and particularly the plan or implementation.

(9) *Program Assistance Approval Document (PAAD).* An internal A.I.D. document approving non-project assistance. It is analogous to the PP.

(10) *Environment.* The term environment, as used in these procedures with respect to effects occurring outside the United States, means the natural and physical environment. With respect to effects occurring within the United States see § 216.7(b).

(11) *Significant Effect.* With respect to effects on the environment outside the United States, a proposed action has a significant effect on the environment if it does significant harm to the environment.

(12) *Minor Donor.* For purposes of these procedures, A.I.D. is a minor donor to a multidonor project when A.I.D. does not control the planning or design of the multidonor project and either (i) A.I.D.'s total contribution to the project is both less than $1,000,000 and less than 25 percent of the estimated project cost, or (ii) A.I.D.'s total contribution is more than $1,000,000 but less than 25 percent of the estimated project cost and the environmental procedures of the donor in control of the planning of design of the project are followed, but only if the A.I.D. Environmental Coordinator determines that such procedures are adequate.

§ 216.2 Applicability of procedures.

(a) *Scope.* Except as provided in § 216.2(b), these procedures apply to all new projects, programs or activities authorized or approved by A.I.D. and to substantive amendments or extensions of ongoing projects, programs, or activities.

(b) *Exemptions.* (1) Projects, programs or activities involving the following are exempt from these procedures:

(i) International disaster assistance;

(ii) Other emergency circumstances; and

(iii) Circumstances involving exceptional foreign policy sensitivities.

(2) A formal written determination, including a statement of the justification therefore, is required for each project, program or activity for which an exemption is made under paragraphs (b)(1) (ii) and (iii) of this section, but is not required for projects, programs or activities under paragraph (b)(1)(i) of this section. The determination shall be made either by the Assistant Administrator having responsibility for the program, project or activity, or by the Administrator, where authority to approve financing has been reserved by the Administrator. The determination shall be made after consultation with CEQ regarding the environmental consequences of the proposed program, project or activity.

(c) *Categorical Exclusions.* (1) The following criteria have been applied in determining the classes of actions included in § 216.2(c)(2) for which an Initial Environmental Examination, Environmental Assessment and Environmental Impact Statement generally are not required:

(i) The action does not have an effect on the natural or physicial environment;

(ii) A.I.D. does not have knowledge of or control over, and the objective of A.I.D. in furnishing assistance does not require, either prior to approval of financing or prior to implementation of specific activities, knowledge of or control over, the details of the specific activities that have an effect on the physicial and natural environment for which financing is provided by A.I.D.;

(iii) Research activities which may have an affect on the physicial and natural environment but will not have a significant effect as a result of limited scope, carefully controlled nature and effective monitoring.

(2) The following classes of actions are not subject to the procedures set forth in § 216.3, except to the extent provided herein:

(i) Education, technical assistance, or training programs except to the extent such programs include activities directly affecting the environment (such as construction of facilities, etc.);

(ii) Controlled experimentation exclusively for the purpose of research and field evaluation which are confined to small areas and carefully monitored;

(iii) Analyses, studies, academic or research workshops and meetings;

(iv) Projects in which A.I.D. is a minor donor to a multidonor project and there is no potential significant effects upon the environment of the United States, areas outside any nation's jurisdiction or endangered or threatened species or their critical habitat;

(v) Document and information transfers;

(vi) Contributions to international, regional or national organizations by the United States which are not for the purpose of carrying out a specifically identifiable project or projects;

(vii) Institution building grants to research and educational institutions in the United States such as those provided for under Section 122(d) and Title XII of Chapter 2 of Part I of the FAA (22 USCA §§ 2151 p. (b) 2220a. (1979));

(viii) Programs involving nutrition, health care or population and family planning services except to the extent designed to include activities directly affecting the environment (such as construction of facilities, water supply systems, waste water treatment, etc.)

(ix) Assistance provided under a Commodity Import Program when, prior to approval, A.I.D. does not have knowledge of the specific commodities to be financed and when the objective in furnishing such assistance requires neither knowledge, at the time the assistance is authorized, nor control, during implementation, of the commodities or their use in the host country.

(x) Support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by the institution;

(xi) Programs of maternal or child feeding conducted under Title II of Pub. L. 480;

(xii) Food for development programs conducted by food recipient countries under Title III of Pub. L. 480, when achieving A.I.D.'s objectives in such programs does not require knowledge of or control over the details of the specific activities conducted by the foreign country under such program;

(xiii) Matching, general support and institutional support grants provided to private voluntary organizations (PVOs) to assist in financing programs where A.I.D.'s objective in providing such financing does not require knowledge of or control over the details of the specific activities conducted by the PVO;

(xiv) Studies, projects or programs intended to develop the capability of recipient countries to engage in development planning, except to the extent designed to result in activities directly affecting the environment (such as construction of facilities, etc.); and

(xv) Activities which involve the application of design criteria or standards developed and approved by A.I.D.

(3) The originator of a project, program or activity shall determine the extent to which it is within the classes of actions described in paragraph (c)(2) of this section. This determination shall be made in writing and be submitted with the PID, PAIP or comparable document. This determination, which must include a brief statement supporting application of the exclusion shall be reviewed by the Bureau Environmental Officer in the same manner as a Threshold Decision under § 216.3(a)(2) of these procedures. Notwithstanding paragraph (c)(2) of this section, the procedures set forth in § 216.3 shall apply to any project, program or activity included in the classes of actions listed in paragraph (c)(2) of this section, or any aspect or component thereof, if at any time in the design, review or approval of the activity it is determined that the project, program or activity, or aspect or component thereof, is subject to the control of A.I.D. and may have a significant effect on the environment.

(d) *Classes of Actions Normally Having a Significant Effect on the Environment.* (1) The following classes of actions have been determined generally to have a significant effect on the environment and an Environmental Assessment or Environmental Impact Statement, as appropriate, will be required:

(i) Programs of river basin development;

(ii) Irrigation or water management projects, including dams and impoundments;

(iii) Agricultural land leveling;

(iv) Drainage projects;

(v) Large scale agricultural mechanization;

(vi) New lands development;

(vii) Resettlement projects;

(viii) Penetration road building or road improvement projects;

(ix) Powerplants;

(x) Industrial plants;

(xi) Potable water and sewerage projects other than those that are small-scale.

(2) An Initial Environmental Examination normally will not be necessary for activities within the classes described in § 216.2(d), except when the originator of the project believes that the project will not have a significant effect on the environment. In such cases, the activity may be subjected to the procedures set forth in § 216.3.

(e) *Pesticides.* The exemptions of § 216.2(b)(1) and the categorical exclusions of § 216.2(c)(2) are not applicable to assistance for the procurement or use of pesticides.

§ 216.3 Procedures.

(a) *General Procedures*—(1) *Preparation of the Initial Environmental Examination.* Except as otherwise provided, an Initial Environmental Examination is not required for activities identified in § 216.2(b)(1), (c)(2), and (d). For all other A.I.D. activities described in § 216.2(a) an Initial Environmental Examination will be prepared by the originator of an action. Except as indicated in this section, it should be prepared with the PID or PAIP. For projects including the procurement or use of pesticides, the procedures set forth in § 216.3(b) will be followed, in addition to the procedures in this paragraph. Activities which cannot be identified in sufficient detail to permit the completion of an Initial Environmental Examination with the PID or PAIP, shall be described by including with the PID or PAIP: (i) an explanation indicating why the Initial Environmental Examination cannot be completed; (ii) an estimate of the amount of time required to complete the Initial Environmental Examination; and (iii) a recommendation that a Threshold Decision be deferred until the Initial Environmental Examination is completed. The responsible Assistant Administrator will act on the request for deferral concurrently with action on the PID or PAIP and will designate a time for completion of the Initial Environmental Examination. In all instances, except as provided in § 216.3(a)(7), this completion date will be in sufficient time to allow for the completion of an Environmental Assessment or Environmental Impact Statement, if required, before a final decision is made to provide A.I.D. funding for the action.

(2) *Threshold decision.* (i) The Initial Environmental Examination will include a Threshold Decision made by the officer in the originating office who signs the PID or PAIP. If the Initial Environmental Examination is completed prior to or at the same time as the PID or PAIP, the Threshold Decision will be reviewed by the Bureau Environmental Officer concurrently with approval of the PID or PAIP. The Bureau Environmental Officer will either concur in the Threshold Decision or request reconsideration by the officer who made the Threshold Decision, stating the reasons for the request. Differences of opinion between these officers shall be submitted for resolution to the Assistant Administrator at the same time that the PID is submitted for approval.

(ii) An Initial Environmental Examination, completed subsequent to approval of the PID or PAIP, will be forwarded immediately together with the Threshold Determination to the Bureau Environmental Officer for action as described above.

(iii) A Positive Threshold Decision shall result from a finding that the proposed action will have a significant effect on the environment. An Environmental Impact Statement shall be prepared if required pursuant to

§ 216.7. If an impact statement is not required, an Environmental Assessment will be prepared in accordance with § 216.6. The cognizant Bureau or Office will record a Negative Determination if the proposed action will not have a significant effect on the environment.

(3) *Negative Declaration.* The Assistant Administrator, or the Administrator in actions for which the approval of the Administrator is required for the authorization of financing, may make a Negative Declaration, in writing, that the Agency will not develop an Environmental Assessment or an Environmental Impact Statement regarding an action found to have a significant effect on the environment when (i) a substantial number of Environmental Assessments or Environmental Impact Statements relating to similar activities have been prepared in the past, if relevant to the proposed action, (ii) the Agency has previously prepared a programmatic Statement or Assessment covering the activity in question which has been considered in the development of such activity, or (iii) the Agency has developed design criteria for such an action which, if applied in the design of the action, will avoid a significant effect on the environment.

(4) *Scope of Environmental Assessment or Impact Statement*—(i) *Procedure and Content.* After a Positive Threshold Decision has been made, or a determination is made under the presticide procedures set forth in § 216.3(b) that an Environmental Assessment or Environmental Impact Statement is required, the originator of the action shall commence the process of identifying the significant issues relating to the proposed action and of determining the scope of the issues to be addressed in the Environmental Assessment or Environmental Impact Statement. The originator of an action within the classes of actions described in § 216.2(d) shall commence this scoping process as soon as practicable. Persons having expertise relevant to the environmental aspects of the proposed action shall also participate in this scoping process. (Participants may include but are not limited to representatives of host governments, public and private institutions, the A.I.D. Mission staff and contractors.) This process shall result in a written statement which shall include the following matters:

(*a*) A determination of the scope and significance of issues to be analyzed in the Environmental Assessment or Impact Statement, including direct and indirect effects of the project on the environment.

(*b*) Identification and elimination from detailed study of the issues that are not significant or have been covered by earlier environmental review, or approved design considerations, narrowing the discussion of these issues to a brief presentation of why they will not have a significant effect on the environment.

(*c*) A description of (*1*) the timing of the preparation of environmental analyses, including phasing if appropriate, (*2*) variations required in the format of the Environmental Assessment, and (*3*) the tentative planning and decision making schedule; and

(*d*) A description of how the analysis will be conducted and the disciplines that will participate in the analysis.

(ii) These written statements shall be reviewed and approved by the Bureau Environmental Officer.

(iii) *Circulation of Scoping Statement.* To assist in the preparation of an Environmental Assessment, the Bureau Environmental Office may circulate copies of the written statement, together with a request for written comments, within thirty days, to selected federal agencies if that Officer believes comments by such federal agencies will be useful in the preparation of an Environmental Assessment. Comments received from reviewing federal agencies will be considered in the preparation of the Environmental Assessment and in the formulation of the design and implementation of the project, and will, together with the scoping statement, will be included in the project file.

(iv) *Change in Threshold Decision.* If it becomes evident that the action will not have a significant effect on the environment (i.e., will not cause significant harm to the environment), the Positive Threshold Decision may be withdrawn with the concurrence of the Bureau Environmental Officer. In the case of an action included in § 216.2(d)(2), the request for withdrawal shall be made to the Bureau Environmental Officer.

(5) *Preparation of Environmental Assessments and Environmental Impact Statement.* If the PID or PAIP is approved, and the Threshold Decision is positive, or the action is included in § 216.2(d), the originator of the action will be responsible for the preparation of an Environmental Assessment or Environmental Impact Statement as required. Draft Environmental Impact Statements will be circulated for review and comment as part of the review of Project Papers and as outlined further in § 216.7 of those procedures. Except as provided in § 216.3(a)(7), final approval of the PP or PAAD and the method of implementation will include consideration of the Environmental Assessment of final Environmental Impact Statement.

(6) *Processing and Review Within A.I.D.* (i) Initial Environmental Examinations, Environmental Assessments and final Environmental Impact Statements will be processed pursuant to standard A.I.D. procedures for project approval documents. Except as provided in § 216.3(a)(7), Environmental Assessments and final Environmental Impact Statements will be reviewed as an integral part of the Project Paper or equivalent document. In addition to these procedures, Environmental Assessments will be reviewed and cleared by the Bureau Environmental Officer. They may also be reviewed by the Agency's Environmental Coordinator who will monitor the Environmental Assessment process.

(ii) When project approval authority is delegated to field posts, Environmental Assessments shall be reviewed and cleared by the Bureau Environmental Officer prior to the approval of such actions.

(iii) Draft and final Environmental Impact Statements will be reviewed and cleared by the Environmental Coordinator and the Office of the General Counsel.

(7) *Environmental Review After Authorization of Financing.* (i) Environmental review may be performed after authorization of a project, program or activity only with respect to subprojects or significant aspects of the project, program or activity that are unidentified at the time of authorization. Environmental review shall be completed prior to authorization for all subprojects and aspects of a project, program or activity that are identified.

(ii) Environmental review should occur at the earliest time in design or implementation at which a meaningful review can be undertaken, but in no event later than when previously unidentified subprojects or aspects of projects, programs or activities are identified and planned. To the extent possible, adequate information to undertake deferred environmental review should be obtained before funds are obligated for unidentified subprojects or aspects of projects, programs or activities. (Funds may be obligated for the other aspects for which environmental review has been completed.) To avoid an irreversible commitment of resources prior to the conclusion of environmental review, the obligation of funds can be made incrementally as subprojects or aspects of projects, programs or activities are identified; or if necessary while planning continues, including environmental review, the agreement or other document obligating funds may contain appropriate convenants or conditions precedent to disbursement for unidentified subprojects or aspects of projects, programs or activities.

(iii) When environmetal review must be deferred beyond the time some of the funds are to be disbursed (e.g. long lead times for the delivery of goods or services), the project agreement or other document obligating funds shall contain a covenant or covenants requiring environmental review, including an Environmental Assessment or Environmental Impact Statement, when appropriate, to be completed and taken into account prior to implementation of those subprojects or aspects of the project, program or activity for which environmental review is deferred. Such convenants shall ensure that implementation plans will be modified in accordance with environmental review if the parties decide that modifications are necessary.

(iv) When environmental review will not be completed for an entire project, program or activity prior to authorization, the Initial Environmental Examination and Threshold Decision required under § 216.3(a)(1) and (2) shall identify those aspects of the project, program or activity for which

environmental review will be completed prior to the time financing is authorized. It shall also include those subprojects or aspects for which environmental review will be deferred, stating the reasons for deferral and the time when environmental review will be completed. Further, it shall state how an irreversible commitment of funds will be avoided until environmental review is completed. The A.I.D. officer responsible for making environmental decisions for such projects, programs or activities shall also be identified (the same officer who has decision making authority for the other aspects of implementation). This deferral shall be reviewed and approved by the officer making the Threshold Decision and the officer who authorizes the project, program or activity. Such approval may be made only after consultation with the Office of General Counsel for the purpose of establishing the manner in which conditions precedent to disbursement or covenants in project and other agreements will avoid an irreversible commitment of resources before environmental review is completed.

(8) *Monitoring.* To the extent feasible and relevant, projects and programs for which Environmental Impact Statements or Environmental Assessments have been prepared should be designed to include measurement of any changes in environmental quality, positive or negative, during their implementation. This will require recording of baseline data at the start. To the extent that available data permit, originating offices of A.I.D. will formulate systems in collaboration with recipient nations, to monitor such impacts during the life of A.I.D.'s involvement. Monitoring implementation of projects, programs and activities shall take into account environmental impacts to the same extent as other aspects of such projects, programs and activities. If during implementation of any project, program or activity, whether or not an Environmental Assessment or Environmental Impact Statement was originally required, it appears to the Mission Director, or officer responsible for the project, program or activity, that it is having or will have a significant effect on the environment that was not previously studied in an Environmental Assessment or Environmental Impact Statement, the procedures contained in this part shall be followed including, as appropriate, a Threshold Decision, Scoping and an Environmental Assessment or Environmental Impact Statement.

(9) *Revisions.* If, after a Threshold Decision is made resulting in a Negative Determination, a project is revised or new information becomes available which indicates that a proposed action might be "major" and its effects "significant", the Negative Determination will be reviewed and revised by the cognizant Bureau and an Environmental Assessment or Environmental Impact Statement will be prepared, if appropriate. Environmental Assessments and Environmental Impact Statements will be amended and processed appropriately if there are major changes in the project or program, or if significant new information becomes available which relates to the impact of the project, program or activity on the environment that was not considered at the time the Environmental Assessment or Environmental Impact Statement was approved. When on-going programs are revised to incorporate a change in scope or nature, a determination will be made as to whether such change may have an environmental impact not previously assessed. If so, the procedures outlined in this part will be followed.

(10) *Other Approval Documents.* These procedures refer to certain A.I.D. documents such as PIDs, PAIPs, PPs and PAADs as the A.I.D. internal instruments for approval of projects, programs or activities. From time to time, certain special procedures, such as those in § 216.4, may not require the use of the aforementioned documents. In these situations, these environmental procedures shall apply to those special approval procedures, unless otherwise exempt, at approval times and levels comparable to projects, programs and activities in which the aforementioned documents are used.

(b) *Pesticide Procedures*—(1) *Project Assistance.* Except as provided in § 216.3(b)(2), all proposed projects involving assistance for the procurement or use, or both, of pesticides shall be subject to the procedures prescribed in

§ 216.3(b)(1) (i) through (v) below. These procedures shall also apply, to the extent permitted by agreements entered into by A.I.D. before the effective date of these pesticide procedures, to such projects that have been authorized but for which pesticides have not been procured as of the effective date of these pesticide procedures.

(i) When a project includes assistance for procurement or use, or both, of pesticides registered for the same or similar uses by USEPA without restriction, the Initial Environmental Examination for the project shall include a separate section evaluating the economic, social and environmental risks and benefits of the planned pesticide use to determine whether the use may result in significant environmental impact. Factors to be considered in such an evaluation shall include, but not be limited to the following:

(*a*) The USEPA registration status of the requested pesticide;
(*b*) The basis for selection of the requested pesticide;
(*c*) The extent to which the proposed pesticide use is part of an integrated pest management program;
(*d*) The proposed method or methods of application, including availability of appropriate application and safety equipment;
(*e*) Any acute and long-term toxicological hazards, either human or environmental, associated with the proposed use and measures available to minimize such hazards;
(*f*) The effectiveness of the requested pesticide for the proposed use;
(*g*) Compatibility of the proposed pesticide with target and nontarget ecosystems;
(*h*) The conditions under which the pesticide is to be used, including climate, flora, fauna, geography, hydrology, and soils;
(*i*) The availability and effectiveness of other pesticides or nonchemical control methods;
(*j*) The requesting country's ability to regulate or control the distribution, storage, use and disposal of the requested pesticide;
(*k*) The provisions made for training of users and applicators; and
(*l*) The provisions made for monitoring the use and effectiveness of the pesticide.

In those cases where the evaluation of the proposed pesticide use in the Initial Environmental Examination indicates that the use will significantly effect the human environment, the Threshold Decision will include a recommendation for the preparation of an Environmental Assessment or Environmental Impact Statement, as appropriate. In the event a decision is made to approve the planned pesticide use, the Project Paper shall include to the extent practicable, provisions designed to mitigate potential adverse effects of the pesticide. When the pesticide evaluation section of the Initial Environmental Examination does not indicate a potentially unreasonable risk arising from the pesticide use, an Environmental Assessment or Environmental Impact Statement shall nevertheless be prepared if the environmental effects of the project otherwise require further assessment.

(ii) When a project includes assistance for the procurement or use, or both, of any pesticide registered for the same or similar uses in the United States but the proposed use is restricted by the USEPA on the basis of user hazard, the procedures set forth in § 216.3(b)(1)(i) above will be followed. In addition, the Initial Environmental Examination will include an evaluation of the user hazards associated with the proposed USEPA restricted uses to ensure that the implementation plan which is contained in the Project Paper incorporates provisions for making the recipient government aware of these risks and providing, if necessary, such technical assistance as may be required to mitigate these risks. If the proposed pesticide use is also restricted on a basis other than user hazard, the procedures in § 216.3(b)(1)(iii) shall be followed in lieu of the procedures in this section.

(iii) If the project includes assistance for the procurement or use, or both of:

(*a*) Any pesticide other than one registered for the same or similar uses by USEPA without restriction or for restricted use on the basis of user hazard; or

(*b*) Any pesticide for which a notice of rebuttable presumption against reregistration, notice of intent to cancel, or notice of intent to suspend has been issued by USEPA,

The Threshold Decision will provide for the preparation of an Environmental Assessment or Environmental Impact Statement, as appropriate (§ 216.6(a)). The EA or EIS shall include, but not be limited to, an analysis of the factors identified in § 216.3(b)(1)(i) above.

(iv) Notwithstanding the provisions of §§ 216.3(b)(1) (i) through (iii) above, if the project includes assistance for the procurement or use, or both, of a pesticide against which USEPA has initiated a regulatory action for cause, or for which it has issued a notice of rebuttable presumption against reregistration, the nature of the action or notice, including the relevant techni-

cal and scientific factors will be discussed with the requesting government and considered in the IEE and, if prepared, in the EA or EIS. If USEPA initiates any of the regulatory actions above against a pesticide subsequent to its evaluation in an IEE, EA or EIS, the nature of the action will be discussed with the recipient government and considered in an amended IEE or amended EA or EIS, as appropriate.

(v) If the project includes assistance for the procurement or use, or both of pesticides but the specific pesticides to be procured or used cannot be identified at the time the IEE is prepared, the procedures outlined in §§ 216.3(b)(i) through (iv) will be followed when the specific pesticides are identified and before procurement or use is authorized. Where identification of the pesticides to be procured or used does not occur until after Project Paper approval, neither the procurement nor the use of the pesticides shall be undertaken unless approved, in writing, by the Assistant Administrator (or in the case of projects authorized at the Mission level, the Mission Director) who approved the Project Paper.

(2) *Exceptions to Pesticide Procedures.* The procedures set forth in § 216.3(b)(1) above shall not apply to the following projects including assistance for the procurement or use, or both, of pesticides.

(i) Projects under emergency conditions.

Emergency conditions shall be deemed to exist when it is determined by the Administrator, A.I.D., in writing that:

(*a*) A pest outbreak has occurred or is imminent; and

(*b*) Significant health problems (either human or animal) or significant economic problems will occur without the prompt use of the proposed pesticide; and

(*c*) Insufficient time is available before the pesticide must be used to evaluate the proposed use in accordance with the provisions of this regulation.

(ii) Projects where A.I.D. is a minor donor, as defined in § 216.1(c)(12) above, to a multi-donor project.

(iii) Projects including assistance for procurement or use, or both, of pesticides for research or limited field evaluation purposes by or under the supervision of project personnel. In such instances, however, A.I.D. will ensure that the manufacturers of the pesticides provide toxicological and environmental data necessary to safeguard the health or research personnel and the quality of the local environment in which the pesticides will be used. Furthermore, treated crops will not be used for human or animal consumption unless appropriate tolerances have been established by EPA or recommended by FAO/WHO, and the rates and frequency of application, together with the prescribed preharvest intervals, do not result in residues exceeding such tolerances. This prohibition does not apply to the feeding of such crops to animals for research purposes.

(3) *Non-Project Assistance.* In a very few limited number of circumstances A.I.D. may provide non-project assistance for the procurement and use of pesticides. Assistance in such cases shall be provided if the A.I.D. Administrator determines in writing that (i) emergency conditions, as defined in § 216.3(b)(2)(i) above exists; or (ii) that compelling circumstances exist such that failure to provide the proposed assistance would seriously impede the attainment of U.S. foreign policy objectives or the objectives of the foreign assistance program. In the latter case, a decision to provide the assistance will be based to the maximum extent practicable, upon a consideration of the factors set forth in § 216.3(b)(1)(i) and, to the extent available, the history of efficacy and safety covering the past use of the pesticide the in recipient country.

§ 216.4 Private applicants.

Programs, projects or activities for which financing from A.I.D. is sought by private applicants, such as PVOs and educational and research institutions, are subject to these procedures. Except as provided in §§ 216.2 (b), (c) or (d), preliminary proposals for financing submitted by private applicants shall be accompanied by an Initial Environmental Examination or adequate information to permit preparation of an Initial Environmental Examination. The Threshold Decision shall be made by the Mission Director for the country to which the proposal relates, if the preliminary proposal is submitted to the A.I.D. Mission, or shall be made by the officer in A.I.D. who approves the preliminary proposal. In either case, the concurrence of the Bureau Environmental Officer is required in the same manner as in § 216.3(a)(2), except for PVO projects approved in A.I.D. Missions with total life of project costs

less than $500,000. Thereafter, the same procedures set forth in § 216.3 including as appropriate scoping and Environmental Assessments or Environmental Impact Statements, shall be applicable to programs, projects or activities submitted by private applicants. The final proposal submitted for financing shall be treated, for purposes of these procedures, as a Project Paper. The Bureau Environmental Officer shall advise private applicants of studies or other information foreseeably required for action by A.I.D.

§ 216.5 Endangered species.

It is A.I.D. policy to conduct its assistance programs in a manner that is sensitive to the protection of endangered or threatened species and their critical habitats. The Initial Environmental Examination for each project, program or activity having an effect on the environment shall specifically determine whether the project, program or activity will have an effect on an endangered or threatened species, or critical habitat. If the proposed project, program or activity will have the effect of jeopardizing an endangered or threatened species or of adversely modifying its critical habitat, the Threshold Decision shall be a Positive Determination and an Environmental Assessment or Environmental Impact Statement completed as appropriate, which shall discuss alternatives or modifications to avoid or mitigate such impact on the species or its habitat.

§ 216.6 Environmental assessments.

(a) *General Purpose.* The purpose of the Environmental Assessment is to provide Agency and host country decision makers with a full discussion of significant environmental effects of a proposed action. It includes alternatives which would avoid or minimize adverse effects or enhance the quality of the environment so that the expected benefits of development objectives can be weighed against any adverse impacts upon the human environment or any irreversible or irretrievable commitment of resources.

(b) *Collaboration with Affected Nation on Preparation.* Collaboration in obtaining data, conducting analyses and considering alternatives will help build an awareness of development associated environmental problems in less developed countries as well as assist in building an indigenous institutional capability to deal nationally with such problems. Missions, Bureaus and Offices will collaborate with affected countries to the maximum extent possible, in the development of any Environmental Assessments and consideration of environmental consequences as set forth therein.

(c) *Content and Form.* The Environmental Assessment shall be based upon the scoping statement and shall address the following elements, as appropriate:

(1) *Summary.* The summary shall stress the major conclusions, areas of controversy, if any, and the issues to be resolved.

(2) *Purpose.* The Environmental Assessment shall briefly specify the underlying purpose and need to which the Agency is responding in proposing the alternatives including the proposed action.

(3) *Alternatives Including the Proposed Action.* This section should present the environmental impacts of the proposal and its alternatives in comparative form, thereby sharpening the issues and providing a clear basis for choice among options by the decision maker. This section should explore and evaluate reasonable alternatives and briefly discuss the reasons for eliminating those alternatives which were not included in the detailed study; devote substantial treatment to each alternative considered in detail including the proposed action so that reviewers may evaluate their comparative merits; include the alternative of no action; identify the Agency's preferred alternative or alternatives, if one or more exists; include appropriate mitigation measures not already included in the proposed action or alternatives.

(4) *Affected Environment.* The Environmental Assessment shall succinctly describe the environment of the area(s) to be affected or created by the alternatives under consideration. The descriptions shall be no longer than is necessary to understand the effects of the alternatives. Data and analyses in the Environmental Assessment shall be commensurate with the significance of the impact with less important material

summarized, consolidated or simply referenced.

(5) *Environmental Consequences.* This section forms the analytic basis for the comparisons under paragraph (c)(3) of this section. It will include the environmental impacts of the alternatives including the proposed action; any adverse effects that cannot be avoided should the proposed action be implemented; the relationship between short-term uses of the environment and the maintenance and enhancement of long-term productivity; and any irreversible or irretrievable commitments of resources which would be involved in the proposal should it be implemented. It should not duplicate discussions in paragraph (c)(3) of this section. This section of the Environmental Assessment should include discussions of direct effects and their significance; indirect effects and their significance; possible conflicts between the proposed action and land use plans, policies and controls for the areas concerned; energy requirements and conservation potential of various alternatives and mitigation measures; natural or depletable resource requirements and conservation potential of various requirements and mitigation measures; urban quality; historic and cultural resources and the design of the built environment, including the reuse and conservation potential of various alternatives and mitigation measures; and means to mitigate adverse environmental impacts.

(6) *List of Preparers.* The Environmental Assessment shall list the names and qualifications (expertise, experience, professional discipline) of the persons primarily responsible for preparing the Environmental Assessment or significant background papers.

(7) *Appendix.* An Appendix may be prepared.

(d) *Program Assessment.* Program Assessments may be appropriate in order to assess the environmental effects of a number of individual actions and their cumulative environmental impact in a given country or geographic area, or the environmental impacts that are generic or common to a class of agency actions, or other activities which are not country-specific. In these cases, a single, programmatic assessment will be prepared in A.I.D./Washington and circulated to appropriate overseas Missions, host governments, and to interested parties within the United States. To the extent practicable, the form and content of the programmatic Environmental Assessment will be the same as for project Assessments. Subsequent Environmental Assessments on major individual actions will only be necessary where such follow-on or subsequent activities may have significant environmental impacts on specific countries where such impacts have not been adequately evaluated in the programmatic Environmental Assessment. Other programmatic evaluations of classes of actions may be conducted in an effort to establish additional categorical exclusions or design standards or criteria for such classes that will eliminate or minimize adverse effects of such actions, enhance the environmental effect of such action or reduce the amount of paperwork or time involved in these procedures. Programmatic evaluations conducted for the purpose of establishing additional categorical exclusions under § 216.2(c) or design considerations that will eliminate significant effects for classes of actions shall be made available for public comment before the categorical exclusions or design standards or criteria are adopted by A.I.D. Notice of the availability of such document shall be published in the **Federal Register.** Additional categorical exclusions shall be adopted by A.I.D. upon the approval of the Administrator, and design consideration in accordance with usual agency procedures.

(e) *Consultation and Review.* (1) When Environmental Assessments are prepared on activities carried out within or focused on specific developing countries, consultation will be held between A.I.D. staff and the host government both in the early stages of preparation and on the results and significance of the completed Assessment before the project is authorized.

(2) Missions will encourage the host government to make the Environmental Assessment available to the general public of the recipient country. If Environmental Assessments are prepared on activities which are not country-specific, the Assessment will be circulated by the Environmental Coordinator to A.I.D.'s Overseas Missions and interested governments for information, guidance and comment and will be made available in the U.S. to

interested parties.

(f) *Effect in Other Countries.* In a situation where an analysis indicates that potential effects may extend beyond the national boundaries of a recipient country and adjacent foreign nations may be affected, A.I.D. will urge the recipient country to consult with such countries in advance of project approval and to negotiate mutually acceptable accommodations.

(g) *Classified Material.* Environmental Assessments will not normally include classified or administratively controlled material. However, there may be situations where environmental aspects cannot be adequately discussed without the inclusion of such material. The handling and disclosure of classified or administratively controlled material shall be governed by 22 CFR Part 9. Those portions of an Environmental Assessment which are not classified or administratively controlled will be made available to persons outside the Agency as provided for in 22 CFR Part 212.

§ 216.7 Environmental impact statements.

(a) *Applicability.* An Environmental Impact Statement shall be prepared when agency actions significantly affect:

(1) The global environment or areas outside the jurisdiction of any nation (e.g., the oceans);

(2) The environment of the United States; or

(3) Other aspects of the environment at the discretion of the Administrator.

(b) *Effects on the United States: Content and Form.* An Environmental Impact Statement relating to paragraph (a)(2) of this section shall comply with the CEQ Regulations. With respect to effects on the United States, the terms environment and significant effect wherever used in these procedures have the same meaning as in the CEQ Regulations rather than as defined in § 216.1(c) (12) and (13) of these procedures.

(c) *Other Effects: Content and Form.* An Environmental Impact Statement relating to paragraphs (a)(1) and (a)(3) of this section will generally follow the CEQ Regulations, but will take into account the special considerations and concerns of A.I.D. Circulation of such Environmental Impact Statements in draft form will precede approval of a Project Paper or equivalent and comments from such circulation will be considered before final project authorization as outlined in § 216.3 of these procedures. The draft Environmental Impact Statement will also be circulated by the Missions to affected foreign governments for information and comment. Draft Environmental Impact Statements generally will be made available for comment to Federal agencies with jurisdiction by law or special expertise with respect to any environmental impact involved, and to public and private organizations and individuals for not less than forty-five (45) days. Notice of availability of the draft Environmental Impact Statements will be published in the Federal Register. Cognizant Bureaus and Offices will submit these drafts for circulation through the Environmental Coordinator who will have the responsibility for coordinating all such communications with persons outside A.I.D. Any comments received by the Environmental Coordinator will be forwarded to the originating Bureau or Office for consideration in final policy decisions and the preparation of a final Environmental Impact Statement. All such comments will be attached to the final Statement, and those relevant comments not adequately discussed in the draft Environmental Impact Statement will be appropriately dealt with in the final Environmental Impact Statement. Copies of the final Environmental Impact Statement, with comments attached, will be sent by the Environmental Coordinator to CEQ and to all other Federal, state, and local agencies and private organizations that made substantive comments on the draft, including affected foreign governments. Where emergency circumstances or considerations of foreign policy make it necessary to take an action without observing the provisions of § 1506.10 of the CEQ Regulations, or when there are overriding considerations of expense to the United States or foreign governments, the originating Office will advise the Environmental Coordinator who will consult with Department of State and CEQ concerning appropriate modification of review procedures.

§ 216.8 Public hearings.

(a) In most instances AID will be able to gain the benefit of public par-

ticipation in the impact statement process through circulation of draft statements and notice of public availability in CEQ publications. However, in some cases the Administrator may wish to hold public hearings on draft Environmental Impact Statements. In deciding whether or not a public hearing is appropriate, Bureaus in conjunction with the Environmental Coordinator should consider:

(1) The magnitude of the proposal in terms of economic costs, the geographic area involved, and the uniqueness or size of commitment of the resources involved;

(2) The degree of interest in the proposal as evidenced by requests from the public and from Federal, state and local authorities, and private organizations and individuals, that a hearing be held;

(3) The complexity of the issue and likelihood that information will be presented at the hearing which will be of assistance to the Agency; and

(4) The extent to which public involvement already has been achieved through other means, such as earlier public hearings, meetings with citizen representatives, and/or written comments on the proposed action.

(b) If public hearings are held, draft Environmental Impact Statements to be discussed should be made available to the public at least fifteen (15) days prior to the time of the public hearings, and a notice will be placed in the FEDERAL REGISTER giving the subject, time and place of the proposed hearings.

§ 216.9 Bilateral and multilateral studies and concise reviews of environmental issues.

Notwithstanding anything to the contrary in these procedures, the Administrator may approve the use of either of the following documents as a substitute for an Environmental Assessment (but not a substitute for an Environmental Impact Statement) required under these procedures:

(a) Bilateral or multilateral environmental studies, relevant or related to the proposed action, prepared by the United States and one or more foreign countries or by an international body or organization in which the United States is a member or participant; or

(b) Concise reviews of the environmental issues involved including summary environmental analyses or other appropriate documents.

§ 216.10 Records and reports.

Each Agency Bureau will maintain a current list of activities for which Environmental Assessments and Environmental Impact Statements are being prepared and for which Negative Determinations and Declarations have been made. Copies of final Initial Environmental Examinations, scoping statements, Assessments and Impact Statements will be available to interested Federal agencies upon request. The cognizant Bureau will maintain a permanent file (which may be part of its normal project files) of Environmental Impact Statements, Environmental Assessments, final Initial Environmental Examinations, scoping statements, Determinations and Declarations which will be available to the public under the Freedom of Information Act. Interested persons can obtain information or status reports regarding Environmental Assessments and Environmental Impact Statements through the A.I.D. Environmental Coordinator.

(22 U.S.C. 2381; 42 U.S.C. 4332)

Dated October 9, 1980.

Joseph C. Wheeler,

Acting Administrator.

APPENDIX 2E

(RESERVED)

APPENDIX 2F

THE LOGICAL FRAMEWORK

(Reserved)

APPENDIX 2G

RECIPIENT COUNTRY CONTRIBUTION TO THE ACTIVITY

* Section 110 of the FAA, Cost - Sharing and Funding Limits, states:

"No assistance shall be furnished by the United States Government to a country under Sections 103 through 106 of this Act until the country provides assurances to the President, and the President is satisfied that such country will provide at least 25 per centum of the costs of the entire program, project or activity with respect to which such assistance is to be furnished, except that such costs borne by such country may be provided on an 'in kind' basis."

This Guidance provides definitions of what the new section covers and how AID will carry it out.

A. Application of Section 110 *

The provision applies to bilateral assistance furnished directly by the Government of the United States to the governments of the less developed countries under Sections 103 through 106, after January 3, 1974. Discrete AID projects in a consultative group setting where other donors are financing other projects are included under the provision. The provision is not applicable to assistance to private organizations in furtherance of their programs in the less developed countries; authentically multilateral, regional or inter-regional programs; housing guaranties; and amendments and other additions of funds to existing loan and grant projects not affecting substantially the scope of the project. Questions regarding whether or not a project is multilateral, regional, or interregional will be settled on a case-by-case basis. Additionally, the section is not applicable as a matter of law to OPGs. However, AID has administratively determined to apply this requirement whenever possible. Therefore, OPG documentation will demonstrate a non-AID contribution of at least 25%, unless this is waived by the authorizing officer.

B. Definition of "Program, Project, or Activity

A "program" is considered to be an entire sectoral effort authorized under Sections 103 through 106 during any given year. Food and nutrition, population planning and health, education and human resources are seen as discrete sector programs; while Section 106 could involve a number of sector programs, e.g., transportation, power, or urban development.

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* Revised

The definition of a project shall be that definition used in a Project Paper. An AID "activity" includes all other assistance directly provided to a country such as self-help/special development activities and program assistance.

* C. Definition of "Contributions" and Period of Time Over Which Contributions Made by the Recipient Country are Counted for Purposes of Meeting Section 110

1. The calculation of respective contributions should be based upon the total cost of the project or activity as defined in the document; e.g., Project Paper; thus, if the project cost including AID and recipient country contributions were the equivalent of $100, the recipient country would have to contribute at least the equivalent of $25. The contributions by AID and by the recipient country may be made during the life of the project as defined in the Project Paper; i.e., normally the disbursement period of the planned AID contribution. When funds for a multi-year technical assistance project are obligated by AID on the basis of annual expenditures, the total amount of the recipient country contribution should be discussed in the Project Paper and may be described in the Project Agreement (although the Project Agreement may obligate only AID's annual contribution to the multi-year project).

2. Prior to or at the time of obligation a satisfactory assurance must be received from the recipient country that it will contibute at least 25% of the costs of the entire project.

3. The AID contribution is the amount planned to be obligated or thereafter obligated.

4. The contribution of the recipient country may cover project operating and/or capital costs including: Cash, capital goods, counterpart personnel related services and studies which are part of the project, rental or purchase of materials for the operations or construction of the project, administrative cost, fair market value of land contributed by the country to the project and costs related to the above items. It will be noted that the inclusion of the words "in-kind" in the pertinent legislation indicates the intent of Congress that contributions should be construed to reflect the total value of contributions of the recipient country government. Situations will undoubtedly arise where it is not clear whether certain country contributions come within the meaning of Section 110. Such questions should be submitted to AID/W for early resolution. *

* Revised

5. A recipient country contribution to budget/program assistance would be measured by total investment or total budget depending upon the context of AID's assistance.

6. Contributions by other donors are excluded since multidonor projects, if authentically multilateral, are excluded from coverage.

D. Time When Calculation is Made and Method by Which Calculation is Made--Two Alternatives

1. The provision calls for recipient country assurance prior to the furnishing assistance; i.e., prior to obligation of funds for the project or activity. AID/W would prefer that these assurances be furnished in writing prior to final consideration of Project Papers in order to enable consideration of the assurance at the time of approval/authorization. The requisite assurance may be made prior to or simultaneously with execution of a project, loan or grant agreement, but the authorizing official should have some knowledge of the nature of the prospective assurance at the time of authorization or authorization should be formally or informally conditioned on the receipt of appropriate assurances. In the latter case, the assurance would normally be contained in the project agreement.

2. In order to deal with a multiplicity of country situations and programs, it will be possible to receive assurances in one or a combination of the following alternatives (on a project-by-project or activity-by-activity basis or by sectoral groups of projects):

a. Calculation on Project-by-Project Basis

Calculations should be made on a project-project basis for life-of-project, as defined above, wherever feasible. This should be the primary method of complying with the provision. Assurances should be obtained in writing from a responsible recipient country official. The assurances should list and state the value of the items which the government will contribute to the project being assisted by AID. The assurance would be cited in the Project Paper and the sufficiency of the estimated or assured contribution would be a consideration given by the AID official authorizing the project. Project Papers (or their equivalent) will have a special section on recipient country contributions as part of the financial analysis setting forth the assured or prospective contributions and their adequacy.

(For further guidance on the AID analysis, see D2c.)

b. Calculations by Groups of Projects

The provision may be met by receiving a prior written assurance of recipient country contributions for a sectoral group of projects before obligation of funds for the first project of the group. The group might consist of all or part of the project/activities within a sector program, as defined in paragraph B above, to be authorized/approved within a given fiscal year. This method of calculation would not relieve Missions of the responsibility of stating recipient country contributions in every Project Paper so that the validity of the assurance could be verified as projects are being authorized.

c. Basic Consideration of Using Above Approaches and Suggested Language

* (1) The important thing is to be able to demonstrate through the above calculations that at least a 25% recipient country contribution towards each project or each AID sector program authorized pursuant to Sections 103 through 106 will occur over the life of the project or program.

(2) This will be demonstrated either through assurances with respect to individual authorizations (or at latest by or at the time of signing project agreements) or by a blanket assurance covering the ratio of contributions for the sectoral group of projects.

(3) As part of the analysis of respective contributions, an acceptable answer to the requirements of Section 110 will be along the lines of: *

"An assurance has been received from the recipient country that its contribution to the project will be as follows...which equals ____%, or more of the total project cost during the period of active AID involvement. AID finds the assurance satisfactory." Or "We estimate the recipient country's contribution to be _____, equal to ____% of the total project over the period of active AID involvement. A written assurance to this effect will be received prior to or as part of the project agreement." Or "The assured contribution of the borrower/grantee is _____ which is less than 25% for this project, but the assured contribution for a sectoral group of projects, of which is project is a part, is equal to or in excess of 25%. Or for assurances for groups of projects: "An assurance has been received from the recipient country that its contribution to the following projects...will be as follows...which equals ____% or more of the total costs of the projects during the period of active AID involvement. The regional assistant administrator finds the assurance satisfactory."

* Revised

(4) Two points should be noted: Subsequent fiscal year calculations of Section 110 contributions should exclude any projects for which life-of-project assurances have been received in prior years. Excess contributions from one sector cannot be counted towards the contribution calculation in another sector.

E. Waiver of Recipient Country Contribution Requirement

* 1. Section 112(a)(1) of the International Development and Food Assistance Act of 1978 added sections 124 -- Relatively Least Developed Countries -- to the Foreign Assistance Act. Sub-sections (a) and (d) of Section 124 state:

(a) "Relatively Least Developed Countries (as determined on the basis of criteria comparable to those used for the United Nations General Assembly list of 'least developed countries') are characterized by extreme poverty, very limited infrastructure, and limited administrative capacity to implement basic human needs growth strategies. In such countries special measures may be necessary to insure full effectiveness of assistance furnished under this part."

(d) The president may on a case-by-case basis waive the requirement of section 110(...) for financial or in-kind contributions in the case of programs, projects or activities in relatively least developed countries."

2. This provision contains two restrictions:

a. A waiver can be granted for a project or activity; i.e., on a case-by-case basis only; and

b. Acceptable starting points for considering whether a country can be considered for a waiver of this cost-sharing requirements are the United Nations General Assembly (UNGA) list of "relatively least developed countries," and the Development Assistance Committee (DAC) list of "low income countries." The fact that a country appears on either list is not a sufficient justification for granting a waiver of the 25 percent recipient country contribution requirement. Nor would it seem to be the intent of the amendment to permit the granting of a waiver in all instances; i.e., in effect negating the case-by-case approach. At the same time, these provisions do not contain any other limitations to the granting of a waiver. Thus, it seems reasonable to conclude that the granting of a waiver is permissible whenever the initiation and execution of an otherwise desirable project is handicapped primarily by the 25 percent contribution requirement. *

* Revised

3. In order to help determine in individual instances when a request for a waiver would be appropriate, the following considerations should be taken into account:

a. Financial Constraint

Financial constraint is obviously an import factor, but is not a sufficient justification for granting a waiver. In assessing the validity of the financial constraint, the following considerations should be taken into account: overall budgetary performance, existing expenditure and development priorities. Recent World Bank and IMF analyses of a country's financial performance justified granting a waiver. Even where a waiver of the 25 percent contribution requirement may be justified, a determination would be made whether a lesser contribution would be appropriate.

b. Country Commitment

Where a waiver is justified on financial grounds, other indications that a country is interested in a particular project or activity become perhaps even more important. Willingness to contribute to the project, even though to a lesser extent, and the importance attached to this type of project or activity in the country's development priorities, can be helpful indications of a country's interest. It is difficult, however, to set down any hard and fast rules which establish a country's commitment in specific instances. Essentially it will be a matter of judgement by the Mission/AID/W whether there is sufficient country commitment to justify the granting of a waiver.

c. Nature of the Project

The nature of a particular project or activity will be a significant factor in deciding whether a waiver would be granted. Where the success of a project depends upon a country's willingness and ability to assume an appropriate share of the cost, a waiver might either not be justified or may be granted only if a lesser contribution is considered sufficient. On the other hand, there are a number of projects/activities where no country contribution needs to be required because their successful implementation can be expected to generate the necessary financial resources, other benefits and/or support -- thus providing reasonable assurance that the activity will be continued. Many pilot and demonstration projects are likely to fall into this category.

d. Phased Contribution

In many instances it may be desirable to combine the initial granting of a waiver of all or part of a country's contribution with a requirement for a gradually increasing contribution. This would allow the country to reorder its expenditure pattern, and perhaps raise additional revenues without delaying the implementation of the project. At the same time such an arrangement would provide reasonable assurance that the recipient government will eventually assume the necessary share of expenditures in order to assure the success of the project.

e. Other Factors

There may be other considerations which could be relevant in specific instances in deciding whether or not a waiver should be granted. Such considerations might include how similar projects are funded by other bilateral donors.

* F. Responsibility in AID for Reviewing Section 110 Assurance and Requests for Waivers

Those now having authority to authorize projects or programs have been delegated authority to judge the adequacy of assurances submitted for a particular project within their current authority. The responsibility for judging the adequacy of assurances related to part or all of a sectoral program will be delegated to Assistant Administrators of Geographic Bureaus and will not be redelegated. The authority to exercise the waiver provisions of the amended Section 110 will be delegated to the Assistant Administrators for the PPC, S&T, and FVA Bureaus, respectively, for the projects and activities within their responsibilities. Each Mission will have responsibility to see that its program is in compliance with Section 110. Geographic Bureau DP offices are to establish a bookkeeping system designed to furnish an answer for any given country in the Bureau on: i) the total amount of recipient country contributions for which assurances have been received so far in the current fiscal year, the amount of AID assistance related to these assurances; ii) the amount of AID assistance to projects and activities for which a waiver or recipient country contribution has been approved and the related amount of recipient country contribution, if any. *

* Revised

CHAPTER 3

PROJECT DEVELOPMENT, ANALYSIS AND PRESENTATION

CHAPTER 3

PROJECT DEVELOPMENT, ANALYSIS, AND PRESENTATION

3A. INTRODUCTION

1. Definitions

a. Project Development is a term used to cover numerous separate but largely interrelated tasks which a designer or design team performs with the objectives of producing a completed project plan, i.e., the final proposed design. Project development tasks include: investigative or research activities, the definition and/or refinement of project elements and objectives (outputs, purpose(s) and goal) as defined in the Logical Framework, the selection of technologies and/or means to be used in achieving them, e.g., technical advice, construction of facilities, training, provision of equipment and materials (the inputs), and the integration of various aspects or elements of the project design as they advance towards their presentation form.

b. Project Analysis is the term applied to different types of analyses within which a given set of statistical data and other information is examined to ascertain whether the means (inputs) from which certain results (outputs) will be produced are reasonable and sufficient; whether the manner in which the inputs are to be provided and utilized are likely to be successful; whether assumptions are made in linking inputs and outputs, as well as outputs to purpose(s) and purpose(s) to goal(s), are likely to be realistic or what conditions will have to be met to make them so.

c. Project Design is a term generally applied to both the process of designing a project as well as to the end product or detailed plan which emerges. As indicated in 1.a. above, the process of design and individual design activities should be referred to collectively as "project development." The term project design will be reserved for describing the completed project plan, i.e., a document or series of documents which describe the approach, participants, resources and general time frame for pursuing specified objectives. In addition to being a detailed description of the structure and essential character of the undertaking, the "design" of a project proposed for AID financing

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will include a description of the methods to be used to implement the activity, the specification of proposed roles and responsibilities of the participants; planning for AID support and oversight (monitoring); and a conceptual approach for assessing results during and after implementation (evaluation).

d. Project Presentation is a combination of documentation and processing requirements culminating in the final review and approval of a proposed project by the appropriate AID official. The Project Plan (PP) is the basic reference document in the presentation sequence. It summarizes analyses carried out during project development and represents the final proposed design emerging therefrom. Modifications that result from the review process (e.g., scope, amount, conditions precedent) are incorporated into the final, approved design, which is then authorized and cleared for final negotiation and obligation.

2. Applicability

Material presented in this chapter is applicable to nearly all bilateral projects (i.e., an agreement between AID and a recipient country government). The general principles of project design and analysis also apply to most multilateral, centrally funded and PVO type projects. Deviations from the requirements of this chapter are covered in Chapter 4, Special Activities.

3. General Comments on the Project Development Process

a. Approved PIDs and the Scope of Project Development

As discussed in Chapter 2 and requirements outlined for Project Identification Document, a number of project development tasks would already have been in progress at the time of PID submission. Thus it is not appropriate to think of project development as something which just gets started when a PID is approved. PID approvals give considerable focus (re general project objectives, scope, level of resources, timing, etc.) to project development efforts. However, since project design and analysis tasks are iterative in nature, these tasks may, in some cases, lead designers beyond the conceptual framework outlined in the PID. For example, subsequent design and analysis may lead to the discovery of previously unforeseen program opportunities. Also, more intensive design investigations may call into question assumptions outlined in the draft Logical Framework. If this occurs, project designers should consult Chapters 2 and 13 herein, and

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with their respective Geographic Bureaus, as appropriate, to be satisfied that to the extent adjustments are made during development of the activity, such are effected within guidance provided in this Handbook. Resultantly, the direction, scope and timing of subsequent project development tasks might also require tailoring to changed conditions or elements.

b. Importance of Good Project Designs

A completed project design is usually a blueprint for transforming a concept into a reality (i.e., a successfully implemented project). Project development, which generates the design, is thus one of the most important phases in the overall project cycle. The thoroughness with which the blueprint is prepared will determine, in large measure, the speed and ease with which a project can be executed and its success in achieving the stated objectives. The fact that design changes may become advisable during implementation of a project should in no way detract from the necessity of starting out with a well prepared design. Professional competence and attention to detail during the design and analysis of project elements will not only contribute to implementation efficiencies by foreseeing and avoiding problems, but are indispensable for identifying design weaknesses and errors. While project papers are important, i.e., as a record of the proposal and a basis for AID reviews and approval, what is more important is that the concept or activity has been subjected to the substance of the project development process before it reaches the approval and implementation phases. A good design, therefore, requires both good development and a good project paper.

c. Role of B/G and Others During Project Development

Project development activities should be undertaken so as to achieve the maximum practicable levels of collaboration and participation by B/G officials, intended participants, and other donors. Such collaboration must go beyond simple acceptance of general design features and agreement in principle on responsibility for the provision of inputs. Collaboration and participation must be sufficient to produce mutual understanding and commitment to project objectives to set the stage for the successful negotiation and implementation of the project agreement. If participation and collaboration are inadequate during project development, the project may never be negotiated and underway. The result could be a waste of project development investments and/or a substantial loss in time and intended benefits

while omissions are being made up for. To avoid such problems, organizers of project development activities need to give considerable attention to the role of B/G officials and others in the project development process and make appropriate allowances therefore in resources, activity plans and schedules.

d. Organization of this Chapter

For those new to the project assistance process, the project development phase can be frustrating. Time, design funds and/or staff resources are often not adequate to satisfy all operational requirements. Such circumstances have caused project papers to be hastily prepared and/or isolation and definition of problem; confirmation of assumption accuracy; collaboration with participants; completion of technical, economic analyses) shortchanged. (It is not uncommon for a design team to become overly involved in one element of the process, e.g., the design of research station facilities, and, as a result, not have enough time left to coordinate other elements or "writing out" critical research extension constraints.) To help project designers keep various interrelated activities in focus (so they can each be advanced in a reinforcing, iterative sense throughout the development sequence), we have divided the chapter into three parts, i.e.:

-- project development tasks,

-- project analyses, and

-- project presentation.

The sequence of project development cannot be considered complete unless each area is properly addressed and all areas are fully integrated. Clearly, one can't have a project paper "ready" for presentation if, e.g., the financing package is imaginary; participants are only vaguely aware of the proposal; analyses are incomplete or based on inaccurate factors.

The three parts of the chapter will hopefully help project designers keep the different aspects separate enough to ensure the integrity and completeness thereof, yet communicate the responsibility designers have for blending each into the final, overall product of the project development process.

3B. Project Development Tasks

1. General Design Tasks

Depending upon the nature of a proposed undertaking, both the development and completed design of a project might range from the relatively simple to the highly complex. As a result, such analyses may likewise be simple and easy or significant consumers of design resources. Because of the iterative, "feedback" nature of the project development process, production of the final, integrated design or interim analyses may generate changes in basic design tasks. Notwithstanding such ranges of complexity or evolvements in designs, the typical project development process has certain essential tasks that need to be planned for and ultimately completed. If they are initiated and pursued in balance with other activities, the final project design will be stronger and the development sequence more efficient and easier to manage. The basic design tasks are the following:

- -- precise definition of project objectives, including a rationale for undertaking the project in its final, proposed form;
- -- determination of the means by which those objectives will be reached (project elements), i.e., the technology to be employed, the types of actions required and their scope, location(s) and interrelationships;
- -- estimation of resources needed to support the activity and identification of possible financing or supply arrangements;
- -- development of methods to be used in taking the required actions, i.e., implementation planning, and
- -- exploration of approaches to be used for overseeing and measuring results achieved by undertaking the project (management, monitoring and evaluation aspects).

It should be emphasized here that project analyses, such a discussed in Section 3.C. and various appendices to this chapter, are required features of the project development process. Since they are a procedure or means to an end product, they are not included as basic tasks. The proper and timely conduct of such analyses and their importance to the successful completion of basic design tasks (and the end products arising therefrom) cannot be overemphasized.

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2. Project Objectives

The precise definition of project objectives is the highest order of design tasks. Even though objectives (outputs, purpose(s), goal) may change, and, as a result of project development, their specification and subsequent pursuit is the central focus about which all other aspects will be molded. The objectives (outputs, purpose, goal) to be reached by the proposed activity are usually initially defined during the Project Identification phase and described as well as possible in the PID and, as appropriate, its preliminary Logical Framework Matrix (see Appendix 2F). The "Log Frame" is a tool for shaping project design and guiding follow-on project development efforts.

Characterizing the Log Frame as a tool for project development implies that it is neither a substitute for specific development tasks discussed in this Handbook or the only tool that can or should be used to help achieve the ultimate specification of project objectives. The various analyses discussed in Section 3C are other tools that should be used in tandem with the Log Frame approach to ensure that the best choices are made as the design advances through subsequent development and assessment phases. Whatever the application of such tools and techniques, it is essential that the product thereof be a set of concise, accurate and meaningful objectives behind which other aspects of project development can be arrayed. The priority of an activity, its potential commitment of resources, methodologies, etc., can only be put in perspective if project objectives are explicitly defined and understandable. Project designers must therefore keep the specification of project objectives foremost on their checklist of essential tasks.

In refining the various levels of project objectives (outputs; purpose; goal), it is extremely important to make explicit and assess all assumptions and relationships upon which the different levels of objectives are based. Reaching the two higher levels of objectives will normally depend on some factors which cannot be controlled by actions to be taken as part of the project. In some cases, it is, however, possible to affect factors which are extraneous to the project itself by agreeing with the B/G on collateral actions that it must take to ensure the success of the project. Such actions would normally be stipulated in covenants included in the Project Agreement and be tracked as part of overall project monitoring. (See Chapters 6 and 11.) In other cases, a rigorous examination of the assumptions made in formulating project objectives may lead to the conclusion that the project must be expanded to include those elements without which the purpose of the project

cannot be achieved. (An example of the first situation described would be a covenant obligating the B/G to make certain improvements in the country's transportation system to ensure the success of a grain storage and distribution project). A normal response to the latter situation would be the inclusion of elements within the project during the design or implementation stages, e.g., assistance in establishing or improving a marketing system in a project aimed at increasing agricultural production. Neither of these two approaches for strengthening the project, however, can be used without careful analysis of all assumptions and interrelationships which define the various levels of objectives.

3. Design of Project Elements

a. By "Design of Project Elements" we mean the definition of: (i) the types of actions to be taken, e.g., transfer of a specific technology, constructing physical facilities, establishing a credit or marketing system; (ii) the scope of such actions, e.g., delineation of advisory services and the number and types of advisors, number of buildings and their function, type and volume of credit to be made available; (iii) the geographical location at which the actions are to be taken, e.g., at an agency's headquarters or other locations, one or more specified sites of building or road construction, place(s) where credit facilities will be installed and how they will be staffed; and (iv) identifying the "actors" to be involved on the side of the B.G, i.e., the specific governmental, extra-governmental and private entities which will have roles and responsibilities during project implementation, roles to be played by other participants and/or beneficiaries, and the involvement of AID and any co-financing institutions in the project. Defining, assessing, integrating and refining all such project elements are the operational objectives of project development, i.e., coming up with an activity which promises to be the most efficient and cost effective way to accomplish overall project objectives. A summary of the completed design of such project elements is to be presented in the PP as part of the "Project Description".

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b. The first step in developing these project elements is to array the alternative ways in which each of the project objectives could be reached. (In some cases, there may be only one way to meet an objective.) Taking a hypothetical agricultural production project as an example (its purpose is defined as increasing production and one of the outputs is the creation of a viable agricultural extension service), the task is to define all actions which must be undertaken to bring that service into being. Such action could include training of extension workers (in the recipient country, in the U.S., or in a third country), minimizing their mobility problems, providing advisory services, addressing farmer-extension agent receptivity issues, or other approaches, singly or in combination which could produce the desired end result. Final selection of an alternative and its corresponding inputs will be guided by considerations of essentiality and practicality (i.e., whether the actions can readily be taken), cost and effectiveness. Defining and selecting the best alternative(s) implies that questions relating to project implementation and preliminary answers to those questions must be included in the process of project development from the outset.

c. Very early during project formulation and the examination of alternative project approaches, the need for a variety of statistical data and other information will become apparent. Such data will become essential to design decision making and to subsequent support of proposed alternatives. Careful attention should therefore be given to a determination of the nature of information needed and the way(s) in which it might be obtained. The temptation will often be great to obtain and consider a greater array of information than may actually be necessary for design work, particularly if the project being developed has few, if any, precedents. The criteria for selecting the types of information needed should be: the foreseeable effect on design decisions, conclusions that might be drawn from particular types of information and the cost of such information. Given the time constraints usually present in project development and the high cost of special studies, information should be classified into "desirable" and "essential" categories. For example, it may seem "desirable" to have a complete population profile of the proposed project beneficiaries but, on closer analysis, it may be found that only a limited amount of statistical information is likely to be obtainable and relevant for the design of the project. Selectively restricting the data gathering effort to "essential" information could save much time and money. Hypothesizing different answers to a given question and reviewing whether the design would be affected by the answer is a good way to

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decide whether the answer to the question is essential. In our example, it may initially appear important to have reasonably precise data on income distribution among the farmers in the project area. On further review however, it may be found that such information is only partially relevant to the design of the particular project. Land ownership patterns, market access, product demand and pricing may be the decisive factors for project design or success, regardless of the income distribution. Income distribution (and risk taking) may, however, be important for the design of a credit element to be included in the project. There are no hard and fast rules to guide decisions on the nature of the data required for project design. The design group must simply have the benefit of professional expertise, use good judgment and, whenever possible, research prior AID experiences and lessons learned to determine the "essentiality" of information. The final answer to data needs to be developed within the framework of a particular project. Data collection and analysis is discussed further in Section D.2 of this chapter.

d. Analysis of the information used and the design of project elements themselves should begin early during project development and continue, as appropriate, until the design is completed. Once the nature of project elements comes into focus, different types of analyses will be undertaken concurrently with the evolvement of other design tasks. For example, if the PID included a finding that an Environmental Assessment is required, that analysis should be initiated well before project element designs are far advanced. Such findings will probably have implications for the Environmental Assessment and on the final design. Similarly, preliminary economic, social, and financial analyses and cost estimating should begin well before project elements are completed and financing arrangements specified. If approached properly and started early enough, such analyses can usually proceed through successive stages of refinement along with the design of the project elements. However, if such analyses do not focus on the decision-making process, from the more general to the specific, they could cause the design group to waste time investigating and detailing non-viable elements or options. Adequate analyses can also help test overall design assumptions and lead to conclusions on conditions and covenants to be included in Project Agreements. Analyses of the capabilities of B/G agencies that might be involved in implementing project elements and the feasibility of overall implementation itself should likewise be initiated as early as possible in the project development sequence.

3B

4. Resource Estimates and Sources of Supply

a. Defining Inputs and Supply Matters

In parallel with the preliminary definition of project elements and the initiation of analyses to test their feasibility, project designers need to make initial probes into the matters of:

-- resources needed (inputs) to produce the project elements (outputs);

-- probable geographic sources of supply and corresponding costs of alternative inputs, and

-- the logistic and financial or "in kind" contribution implications of such input alternatives.

Considerations of the foregoing as the design advances is not only essential to the development of individual elements, but also helps in shaping the financing package requirements and possibly even composition of the management and donor groups.

To continue with a hypothetical example, it is not sufficient to conclude that certain advisory services will be essential to the success of the project. Because of financial and statutory requirements, the source from which such services might be obtained and their cost must be projected and assessed for feasibility. Similarly, if a training center is considered as a project element, the manner in which it would be build (by a local or foreign contractor, with locally available or imported materials) and the relative costs of construction and operation must be taken into account. Consideration of implementation and subsequent operations issues is always necessary, but it can assume added importance if highly specialized skills are required which are not certain to be available from traditional sources, i.e., educational institutions, commercial firms or U.S. Government agencies. In such cases, the search for possible input sources should be early in the project development phases. Confirmation of input sources and defining responsibility for their contribution can help minimize lengthy delays when negotiations or implementations begins and/or the need for redesigning the project.

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b. Cost Estimation and the Draft Financing Plan

(1) The preparation of cost estimates should be undertaken concurrently with other input and output design tasks because the cost of adopting a particular course of action may affect its feasibility. It is, therefore, advisable to attach a "price tag" to each project element as soon as it is being seriously considered for inclusion in the project, even though the first estimate may be no more than a "ballpark" figure. As more detailed features of the element and its inputs are developed, the estimate should be refined so that completion of the cost estimate will proceed simultaneously with specification of the potential elements. The preparation of estimates in this incremental fashion will also make it possible to determine well before project design is completed whether it will be economically feasible and cost estimates are comparable to those contained in the PID. If the activity is projected to cost substantially more than was estimated at the PID stage, consultation with the cognizant Bureau will be necessary. The identification of significant cost increases may precipitate a search for other institutions to help finance the project and/or result in the adjustment of inputs, outputs or objectives. For such reasons, the preparation of cost estimates should be evolutionary and not be postponed until late in the design sequence.

The difficulty of preparing cost estimates varies with the number and type of elements to be included in the project. No matter what the degree of difficulty, great care must be taken to arrive at realistic sources and cost estimates since financing cost overruns can cause delays and/or operational problems. Even though the B/G obligates itself in the Project Agreement to provide all funds not contributed by AID (see Section 3.2 of the Model Project Agreement in Chapter 6), it is often, in fact, not able to do so. Also, there is never any assurance that AID and/or other donors will later be able to increase their funding. Most importantly, however, if project inputs elements and benefits are not costed and valued accurately, the project economic analysis could be upset, resulting in abandonment of the activity after significant resources are invested. Timely and accurate costing can thus be crucial to project success.

(2) Additional guidance on the cost estimating aspect of project development is included in Appendix 3B. This appendix also includes a more detailed discussion on the development of a draft Financing Plan and considerations to be given in putting together a "package" of participants and donors to share in the provision of funds and/or "in kind" contributions (inputs) needed to generate the intended

project elements. The completed Financing Plan will outline the proposed allocation of inputs among donors and participants and indicate the general scheduling of such expected contributions. Thus, an early start and the evolutionary development of the Financing Plan will permit progressively more detailed discussions and coordination among potential project contributors.

5. Implementation and Management Considerations

a. General

In addition to the foregoing project development tasks, there are several considerations to be addressed as the nature of the activity and the financing group takes shape. These considerations are primarily focussed on the physical undertaking of the proposed project. Such matters, however, are expected to be important qualifiers during the design phase and may become major determinants in the choice of a particular design alternative. (For example, the "design" of a particular project element would be totally invalid if the proposed element couldn't be implemented as defined.) In such as case, a revised element or viable alternative thereto would have to be substituted in the overall design.) These additional considerations are aimed at answering the following design questions; they are discussed briefly below and in more detail in other portions of this handbook:

-- How long should a project be?

-- If everything isn't completely settled before AID approves the activity, what mechanism (e.g., Conditions Precedent) can help bridge the unknowns or offset the risk of early obligations?

-- Has there been adequate staff work to support a conclusion that the activity as designed can be successfully put into effect (Implementation Planning)?

-- Will the activity be susceptible to management, monitoring and evaluation techniques that will ensure efficient implementation and/or effective adjustment to changing circumstances?

3B5

b. Length of Project

The length of a project, i.e., the estimated period from obligation to completion of AID inputs or project activities, will vary depending upon the nature of the proposal. There are no barriers to projects which take more time to complete, e.g., institution building activities. There are, however, guidelines on how such projects might be designed and implemented (see Appendix 1B) and, depending upon the proposed Life of Project, it may have to be authorized by higher level officials, e.g., projects with an initial life of more than ten years will have to be authorized by the AID Administrator. (See Chapter 5.)

c. Conditions and Covenants

Conditions and covenants included in Project Agreements specify actions which the B/G must take in connection with the implementation of the project or actions which are necessary or desirable to optimize the results to be obtained from undertaking the project. Those actions which are necessary, either for project implementation or for achieving project objectives, are sometimes described as "essential" because the project should not be initiated or its objectives will not be achieved, if they are not taken. Actions which would increase project benefits but are not "essential" to its success may be directed towards policy changes or other measures which are related to but not part of the project. The differentiation between these two types of conditions and covenants is important in deciding which should be included in the Project Authorization. (See Chapter 5.) Essential Conditions and Covenants will usually be derived from analysis of assumptions. This process is discussed in paragraph 3B.2 above.

The actual Conditions and Covenants clauses to be included in the Agreement can be drafted when the overall Agreement is prepared. Deciding on the substance of the clauses, however, is part of project development, because such decisions will arise from the examination of assumptions about essential actions to be taken either before the project begins (e.g., as reflected by AID disbursements) or by the B/G outside the project. Conditions and Covenants may also in some ways represent aspects of a project which are essential to its success, but which can't be worked out during design or, possibly, effected as integral parts of the project. In the respect, too many Conditions or Covenants in a project authorization can be an indicator of increased project risk and premature design, rather than explicit covering of all important details potentially affecting the project.

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(1) "Conditions" are those provisions in the Project Agreement which specify a one-time action to be taken by the B/G. "Covenants" are those provisions which obligate the B/G to observe certain requirements or to take certain specific or continuous actions during the life of the Agreement.

Conditions, in turn, are either "conditions precedent" to initial disbursement or supplementary "conditions precedent" to a special action or event, such as the disbursement of funds by AID to a separate element of a project. Conditions precedent to initial disbursement (CPs) are the type most frequently used in Project Agreements. Two such conditions are routinely included in Loan and Grant Project Agreements, i.e., a "legal opinion" on the validity of the Agreement and the requirement to name official representatives. (See Chapter 6 for details.) In addition to these standard initial conditions, other CPs, i.e., to subsequent disbursements, are frequently included.

Examples of conditions precedent to subsequent disbursements are the appointment of a B/G program manager, preparation of specified plans, signature of contracts acceptable to AID, acquisition of sites needed for the project or the commissioning of special studies. Deciding what actions or events must take place to permit the project to go forward as planned, and the timing of such actions or events, requires considerable thought. Considerations important to those decisions include essentiality of the event or action for project success, the time likely to be needed by the B/G to take such action and the latest date by which the event could occur without seriously affecting project viability.

(2) Covenants

If a more continuous actions is required by the B/G or if the action required is not directly related to implementation of the project (but rather intended to create conditions related to but not part of the project), it should not be designated as a CP to Disbursement. In such cases, e.g., the subsequent staffing and operation of an institution to be created as part of the project, incorporating the requirement as a covenant would be more appropriate. Covenants are also commonly used to ensure sound financial operations ("financial covenants") of a project after it has been completed. Examples are the maintenance of a current ratio (ratio of current assets to current liabilities), a prohibition against investments by the project without AID's approval or limitations on dividend payments.

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(3) Conditions versus Covenants

The nature of CPs to Disbursement implies that they provide more leverage then either supplementary conditions precedent or covenants because they are to be satisfied before AID supported project elements can be financed. The real world is seldom so accommodating. It might be counter-productive to squeeze all conditions necessary for reaching project objectives into CPs to Disbursement because doing so may make the beginning of project implementation impossible.

Legal remedies open to AID in case of the B/G's failure to meet secondary conditions precedent or comply with covenants to usually involve the suspension or termination of the project, i.e., steps that often have broad implications for the relationship between AID and the B/G. Given the facilities of such "controls," CPs and covenants should be kept to the minimum necessary to ensure adequate commitment by the parties to initiate and successfully complete the project.

In projecting dates by which CPs to Disbursement should be met (Terminal Date for meeting Conditions Precedent, frequently referred to as TDCP), the time needed to take the actions required by the CPs should be realistically assessed jointly with the B/G. Two considerations must be reconciled in doing so: (i) the desirability of beginning implementation as soon as possible after signing of the Project Agreement; and (ii) the undesirability of extending the TDCP, once or several time, because the parties are unable to take the required actions before the agreed upon TDCP. There are no rules which can be applied in arriving at a reasonable period for meeting CPs. Setting a realistic TDCP involves judgments as to the period usually needed by a B/G to take the kind of actions required and the period needed by AID to take collateral action (e.g., approval of a contract).

(d) Implementation Planning

It is evident from preceding parts of this chapter that planning the implementation of a project must be an integral part of and a constant consideration during project development. In Chapter 7, "implementing" is defined as "putting into effect." An implementation plan for a project is therefore a description of the actions needed to put into effect the project elements, a plan of action for translating the "blueprint" for achieving project objectives, the project design, into reality. The plan must be formulated during project development not only to avoid delays during project implementation but, most importantly, to test the effectiveness and efficiency of different implementation methods.

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The type of actions (organizing, managing, staffing, contracting and purchasing, disbursing funds, etc.) which must be included in overall implementation planning, the methods for scheduling such actions and related matters are discussed in Chapter 9. Contracting and disbursement methods demand special attention because choices thereof will have effects on the implementation schedule. They also have to be taken into account in the Administrative Analysis. Contracting methods are discussed in detail in paragraph C3c of Chapter 8; material relating to AID's policy on the choice between "Country Contracting" and "Direct AID Contracting" is included in Chapter 3 of Handbook 1B. Additional information is contained in the two "Guidebooks" on these subjects that appear in the Supplement to this Handbook. A related excerpt, "Choice of Procurement Entity" and information on procurement planning are included in Appendix 3H. Disbursement Methods are described in Appendix 3I.

The "Fixed Amount Reimbursement" (FAR) method of disbursing project funds requires special implementation approaches and can be used only if a project is specifically designed for its application. In all other types of disbursement, AID pays for the purchase of commodities and services specified in contracts or other documents in the course of implementation. Under the FAR procedure, AID disburses its contribution to the project only after a project, or specific project elements, have been completed. In Log Frame terms, AID finances <u>inputs</u> under all other disbursement procedures but finances <u>outputs</u> under the FAR procedure. For details, refer to Appendix 3J.

e. <u>Pre-Implementation</u>

"Pre-Implementation" actions are those implementation actions which can, and often should, be taken before AID funds are available, i.e., before a Project Agreement is signed. Generally, actions which can be taken before the Project Agreement has become effective are only those that do not require the B/G or AID to assume financial obligations (although, the B/G may do so at its own risk). Substantial time can be saved, however, particularly in the ever time-consuming procurement and contracting process. Project designers should remain alert to pre-implementation opportunities and use this mechanism wherever circumstances dictate. A more complete discussion of pre-implementation considerations and actions is provided in Chapter 10.

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f. Monitoring and Evaluation Considerations

Monitoring the implementation of a project can make substantial demands on the time of both AID's field staff and B/G personnel. It is, therefore, imperative that monitoring be planned during project development, particularly if periodic data collection is envisaged, and that monitoring plans and reporting requirements be agreed with the B/G. Monitoring principles and procedures and reporting systems which should be considered during project development are discussed in Chapter 11.

Evaluation considerations likewise must be woven into the overall sequence of project development tasks. Evaluation approaches need to be developed and agreed with the B/G, showing at what points and how the project design, its implementation and expected impact might best be evaluated. The principles and procedures which should be considered in evaluation planning are set forth in Appendix 3K and discussed in detail in Chapter 12.

3C Project Analyses

1. General The importance of analytical efforts as a tool to be used during project development was pointed out in paragraph 3B1 above, in which the design of project elements is discussed. It cannot be overemphasized that project design and analysis are essential ingredients in the same endeavor, i.e., to define and assess the validity of what is to be done and when, and how and by whom it is to be done. The analysis tests the feasibility and effectiveness of the design and may lead to its modification, after which the revised design will again be subject to an analytical test. Because different elements of the design, e.g., the choice of project sites and the availability of personnel to implement a project, affect each other, the analysis must be carried out as design proceeds rather than as a separate task after the design is substantially completed.

This section of the Chapter, and particularly the Appendices to which references are made, contain guidance on the content and methodology of different types of analyses. Extensive literature exists regarding the six principal analyses discussed (technical, financial, economic, social, environmental and administrative). Such information cannot be summarized herein; however, references are made to some of the literature in the Appendices. It is assumed that professionally qualified staff or consultants will be responsible for specific analytical aspects during project development. This section is therefore limited to a general discussion of project analyses and approaches with which all Project Committee members should be familiar.

3C

2. Technical Analysis

a. The task set for the technical analysis of projects is to examine the "technical feasibility" of projects. An analysis of feasibility includes no only an answer to the question whether it is possible to implement a project in the form proposed but also whether the means selected and the methods proposed for the realization of the project elements are technically the most suitable and cost effective. Technical analysis, therefore, must go hand-in-hand with financial and economic analysis. Experts dealing with the technical aspects should be completely familiar with the methods used in financial and economic analysis or work in conjunction with persons possessing such skills.

b. Questions to be examined in a technical analysis depend on the nature of the project. The more complex and varied proposed project elements are, the more diverse will be the expertise needed to analyze them. A project which contains a training element essential to its success, should reflect a determination that the required number of candidates can be trained in a timely manner. If construction of physical facilities is the only project element, conceivably only architectural and engineering expertise might be needed to analyze it. A project which proposes to include the provision of fertilizer and seeds, establishment of an agricultural credit system and construction and operation of a fresh produce grading and marketing center will require a broad variety of technical expertise. There is, therefore, no explicit specification of "minimum" essential technical analyses necessary to support project development.

c. Not only is technical analysis closely related to financial and economic analysis, it often overlaps in many respects and must be integrated with social analysis. Determining most cost effective elements within the agricultural project mentioned above should go in hand with the assessment of such social factors as beneficiary distribution, receptivity of farmers and consumers to new production and marketing systems and the compatibility of a new credit system with cultural traditions. Similarly, the administrative implications of various technically possible and desirable alternatives must be taken into account. Project analysis can thus be a task that can only be accomplished by a team effort and may fail if each expert works independently from others.

3C2

d. Pointing out that there is an inter-connection between technical and other types of analysis is not to say that technical analysis does not have objectives, and does not use methods different from those inherent in social, financial or economic analysis. Its objective is to ascertain whether the design of a particular project or project element is consistent with the body of knowledge about possible solutions to a given problem existing within the cognizant professional community. The technical expert's task is to weigh the merits of alternative courses of action in the light of such accumulated professional experience to identify in coordination with other designers the preferred course.

e. The ways of obtaining expertise for technical analysis and integrating it with project development tasks carried out by Missions is discussed in Section 3D. Details on Technical Analysis are contained in Appendix C to this chapter.

3. Financial Analysis

a. The purpose of financial analysis is twofold: (i) to determine that the proposed activity will be financially viable and have monetary value to the direct participants (i.e., that revenues will be of such amounts and received in such time periods as to be larger and more valuable than the stream of projected expenses), and (ii) that the stream of projected expenses can actually be financed (paid for) by project participants as envisioned in the implementation plan (Schedule of Sources and Uses). The financial analysis will also produce information and/or a series of tables or schedules which will help form a description of the proposed activity in the Project Paper.

b. Financial analysis is distinguished from economic analysis by the data used in conducting the analysis and the purpose which it serves. Financial analysis uses actual and projected market prices, i.e., the prices expected to be paid by those buying inputs for a given product and obtained in selling the product. Economic analysis uses constructed values, i.e., "shadow prices" or "opportunity costs." Financial analysis takes into account all expenses (costs) encountered by a producer, e.g., the price of inputs, import duties, interest or taxes, and all revenues (benefits), whether such are obtained from the sale of products, a government subsidy, depreciation of physical assets, etc. (Economic analysis disregards all costs which represent "transfers" between members of the same economic community, usually a country, such as subsidies, taxes and the like. It does, however, consider costs to be incurred in connection with the project by entities

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other than the direct participants, e.g., the cost of farm-to-market roads.) The difference of these two approaches to the analysis of costs and benefits stems from the difference in the objectives of both types of analysis. The purpose of financial analysis is to ensure that an activity can be paid for and to determine the profitability of a project from the standpoint of an individual or public or private entity for whose benefit a project is undertaken. Economic analysis is concerned with the social profitability of a project, i.e., the relationship of the costs incurred and the benefits obtained by the society as a whole. (See following section.)

c. There are several standard methods for financial analysis which are discussed in Appendix D, "Financial Analysis." Commonly used are those methods which take the value of money and time into account, such as the "discounted cash flow" or "present value" methods of analysis. These methods lead to the determination of a Financial Rate of Return expected from the investment of financial and other resources required to implement the project; that rate is also sometimes referred to as Return on Investment (ROI). The period considered in such calculations is the expected economic life of the project, usually in the range of 20 to 30 years, depending on the type of project analyzed. In the financial analysis, inflation factors must be used in projecting both the costs (expenditures) and benefits (revenues) on which the calculation of the ROI is based. If the project includes a participant training component, the economic analysis of that component should be conducted within the framework set out in the Training Cost Analysis system.

d. Some projects, primarily "human infrastructure" projects such as those in the area of health, education training, do not lend themselves to the types of analyses mentioned above. For those projects, the demand for the proposed services should be analyzed and the best technological alternative(s) identified. A "least cost" analysis of such alternatives should be used to arrive at a final design recommendation.

* e. Each and every project design document, whether for AID/W or field authorization, will include as part of the financial analysis section a detailed assessment of the methods of implementation and provide the basic approval for later issuance of financing documents requested by the implementing offices during project implementation. The Regional Bureau Controller has the authority to review and provide concurrence of this section of the project design document submitted to AID/W. Additionally, the AID/W Controller has provided a delegation of authority to the Mission Controllers to require their review and concurrence for those project design documents approved in the field as well as those submitted to AID/W.

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The Regional Bureau Controllers will also be responsible for reviewing and concurring in the methods of financing and implementation for all regional and centrally-funded projects for their respective bureaus. The AID/Controller, or his/her designee, will be responsible for reviewing and concurring in the methods of financing and implementation for all other central bureaus' centrally-funded projects.

The methods of implementation and financing section of the design document should be presented in the following general format:

(1) A chart should be prepared indicating all methods of implementation to be used in the proposed project/program and the various methods of financing under each. This chart should include approximate dollar amounts by method of implementation and by method of financing. The following is an illustrative example:

Methods of Implementation and Financing
(Illustrative Example)

Method of Implementation	Method of Financing	Approximate Amount
TA - HC Institut. Contract	Direct L/Comm	5,000
	HC Reimb.	500
	Bank L/Comm	1,500
		7,000
Audit - HC Contract	Direct Pay	100
TA - HC-PSCs	Direct Pay	200
Construct. - Schools	FAR	13,000
Commod. - AID Proc.	Bank L/Comm	6,000
Proc. Agt. Contracts	Direct L/Comm	2,000
		8,000
Commod. - HC Proc.		
Purchase Orders	HC Reimb.	500
	Direct Pay	500
		1,000
Total Project		29,300

(2) This section should provide a narrative justification for departures from the following three preferred financing alternatives:

3C3e(2)

(a) The use of fixed Amount Reimbursement (or modified Fixed Amount Reimbursement) as the preferred method in financing multiple nit construction.

(b) Use of the Letter of Credit (LOC - formerly FRLC) procedure. (Note that LOCs may be used only in the case of non-profit organizations. They cannot be used in any case for host country contracts of loan-financed contracts.)

(c) The use of the direct reimbursement (direct payment) procedure (reimbursing the host country, contractors and others) including the use of AID Direct Letter of Commitment.

In the above example, a justification needs to be provided on the use of the Bank L/Comm except for CIP and project commodity financing for which the mission anticipates a proliferation of invoices.

(3) If applicable, a detailed explanation and assessment of the host country government's specific procedures for contracting, commodity procurement, and payment verification should be provided in this section. Where the host country contract method of implementation is being proposed the capacity of the host country and its implementing agencies must be realistically assessed as part of the planning process. Refer to Handbook 3, Supplement B.

(4) In addition, an evaluation of the need for audit coverage is required in this section in light of potential risks and a statement to describe planned contract and project audit coverage by the host government, AID, and/or independent public accountants. Project funds should be specifically budgeted for audit and not intermingled with other project requirements unless adequate audit coverage by the host country is reasonably assured or audits by third parties are not warranted.

An evaluation of audit needs should be built upon the specific assessment of methods of implementation and financing included in the design document as illustrated in (1) above. Assessments regarding the choice of method of financing or method of implementation will often dictate the degree and means of appropriate audit coverage. Each type of method of financing and implementation contained in the specific assessment should be evaluated for audit need. When making this evaluation project designers should consider the following:

-The degree of vulnerability and/or overall accountability associated with a particular method of financing or implementation.

-The likelihood of audit coverage by the IG or cognizant federal agency.

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-The likelihood and adequacy of audit coverage by the host government.

-The availability of qualified local independent public accountants (to be considered when budgeting project funds for audit).

-The use of competent independent accountants by various recipient organizations to issue certified financial statements which take into account the usage of AID funds.

-The desire scope, frequency, and timing of audits.

When completed, the evaluation should have considered audit coverage for all proposed methods of financing and implementation contained in the project design documents. It is realized that project designers are required to base this evaluation to a very great extent on their judgement and by applying various assumptions, and should document these judgements and assumptions in the project documents.

Project officers have the responsibility to carefully monitor the audit plans during the course of project implementation and make the necessary amendments to the project budget for auditing needs, if warranted. *

4. Economic Analysis

The purpose of economic analysis is, as mentioned in the preceding paragraph, to determine the social profitability of a project. Standard methods of analysis, designed to establish the Internal Rate of Return (IRR) of a project as a measure of its value to the country should be used for all projects where possible. Where costs and benefits cannot be adequately valued and measured in monetary terms, the calculation of an IRR will be impracticable. In such cases, a demand and least-cost analysis should be substituted, using the perspective and data that would have been used in an IRR calculation, i.e., all social costs and benefits. See Appendix E, "Economic Analysis of Projects," for a more complete discussion of techniques and procedures.

5. Social Soundness Analysis

The objectives of social soundness analysis are threefold: (i) to help shape project design elements as they advance through various decision stages during project development (ii) to strengthen other analyses (e.g., technical analysis), and (iii) to confirm the socio-cultural feasibility of the overall activity as it enters its final proposal form. The scope of social soundness analyses will vary considerably depending on the scope of the project, the types of development activity planned, the characteristics of participant and beneficiary populations, and the social issues germane to project success. The following six aspects would normally be addressed as part of the social analysis and summarized in the project paper:

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a. Socio-Cultural Context: The socio-cultural context of the project area should be examined in relation to the wider social, economic and political environment, focusing on the significant features of the social landscape which relate to and demonstrate the need for the proposed project. In most cases the assessment and discussion thereof will be more comprehensive and detailed than was possible at the PID stage, since the project design group can incorporate knowledge generated during the project development process.

b. Beneficiaries: The analysis should define the direct and indirect beneficiaries of project activities as precisely as possible, showing how the local men's and women's needs for planned activities have been determined, and show how project resources and activities will lead to benefits. This will entail a summary description of the participator profile outlining basic characteristics (e.g., education, ownership of land, surplus labor, political allegiance) necessary for person or household to benefit from the project. Intra-household benefit distribution must also be addressed. If some categories of people or groups are likely to be adversely affected by project activities there must be a discussion of mitigating or compensatory actions planned. The analysis should briefly address host country commitment to the project and identify from the social perspective any policies or practices which may interfere with the equitable distribution of benefits. This will require a discussion of local patterns of stratification and the institutional channels through which benefits will actually filter to planned beneficiaries.

c. Participation: A social soundness analysis must review the extent to which beneficiary participation has been achieved during project development. Also, the opportunities for and means by which beneficiary participation ahs been built into project implementation and evaluation plans must be addressed. This may include a discussion of collaboration achieved with various host country entities during project development and collaborative procedures built into the implementation plan; a review of opportunities for local-level decision making; and an motivation among local men and women and other participants such as host country personnel. Participation should assess the extent to which the concept and goals of the project have been understood and accepted by those who will participate, and show how local groups, institutions, community leaders, etc., will help and/or guide implementation of the project.

d. Socio-Cultural Feasibility: The analysis should identify and review implementation obstacles that may arise from intra-family, local and national-level socio-economic forces that influence decision-making processes of participants and beneficiaries. This will entail an

3C5(d)

assessment of the suitability of proposed interventions given the administrative, organizational, technological, economic and ideological context of the beneficiary population. It is important to give particular attention to the administrative environment within which the project will take place, because the attitudes, objectives and capacities of personnel within implementation agencies can be as crucial to project success as any aspect of the beneficiary population.

e. Impact: Project impact should be addressed from several perspectives, including the probability that the project will achieve some spread effect and/or that project activities will be suitable for replication; that project activities and benefits can be expected to continue beyond the life of the project; and the probability that there will be an equitable distribution of benefits among all affected groups, including women. Since it will seldom be possible to guarantee intended impact, the analysis should identify any significant risks or untested assumptions in the project strategy.

f. Issues: The analysis should address social issues which have a particular bearing on the success of the project. Such issues may include topical areas of special concern to AID (e.g., rapid population growth, energy, employment), or issues raised during project development which will require special attention during implementation. This may result in the identification of other types of information to be gathered during initial implementation phases; a review of the project monitoring and feedback systems re their capacity to identify problems of a socio-cultural nature; consideration of intra-family or local level decision-making and resources distribution mechanisms; an assessment of the capacity of project participants to deal with socio-cultural implementation problems on a systematic and timely basis. It may also be necessary for the social analysis to review assumptions about expected beneficiary behavior and institutional capability contained in the project Logical Framework, as well as similar assumptions in the economic, financial, institutional and technical analyses.

In sum, the foregoing topical areas are meant to serve as a guide to performing a relevant, project-specific social analysis. Such should take into full account the specific characteristics of the proposed undertaking and give considerable thought to socio-cultural problems which may arise during project implementation. Depending on the particular project and the adequacy of sources of information, some areas may be treated more completely than others. The analysis (and the summary thereof in the Project Paper) should avoid the development and presentation of unnecessary background or ethnographic detail. It would nevertheless be appropriate to cross-reference other documents or supplemental analyses where these provide greater detail on particular issues.

Further information on the social soundness analysis appears in Appendix 3F.

3C

6. Administrative Analysis

a. The purpose of the Administrative Analysis is to determine whether the best alternatives for assigning implementation functions to B/G agencies and AID, respectively, have been identified. The individual functions and tasks which need to be considered in the Administrative Analysis are discussed in Chapter 8. That chapter also contains a description of existing AID policy and of alternative arrangements for specific implementation tasks. Chapter 8 therefore can serve as a starting point for formulating the implementation plan and for the analysis of its components.

b. There is no universally agreed upon "methodology" for undertaking an Administrative Analysis in the same sense as there are specific approaches for financial and economic analyses. The preferred "method" as far as AID is concerned is nonetheless, a systematic and detailed examination of the likelihood that B/G agencies, other participants and AID can meet the responsibilities to be assigned to them. A precondition for completing such an examination is, of course, the availability of useful information on the management, staffing, (including the availability of candidates for training), organizational experience, etc. of the intended participants. A deliberate effort must therefore be made to obtain such information if it is not available as a result of previous experiences with AID or other donors. Consultation with Borrow/Grantee personnel which take place during project development can provide useful insights into the operations of an agency and the capabilities of its management and staff. The capacities of AID's field staff and, to the extent such are to be involved, AID/W offices must also be assessed to ensure that AID can meet responsibilities envisioned. In making such assessments, limitations as to size, capacity, composition of and turnover of AID staff must be taken into account.

c. If the analysis concludes that either the Borrower/Grantee agencies or AID will need outside assistance is meeting their respective responsibilities, the nature and extent of such assistance must be specified and built into the project, e.g., as an additional project element or within the scope of advisory services already planned for. In any event, the cost of such additional services must be reflected in the financing plan. See Appendix 3G for additional information on administrative analyses.

7. Energy Consumption and Production in Projects

Virtually all projects consume energy in some say; some projects also make energy available in larger quantities or in more useful forms. The energy used and/or transformed by projects involves two major resources: human energy and physical energy. The physical energy

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resources used by projects can be further subdivided: (1) non-renewable resources, such as oil, coal and natural gas. When these resources are used a finite stock is depleted; there are limits to the amount of all resources which are termed non-renewable; (2) renewable resources, such as the sun, wind and the power inherent in moving water. These resources can be harnessed and used without depleting them. Both renewable and non-renewable energy resources can be employed to product secondary forms of energy, such as electricity. When projects employ energy resources to produce secondary forms of energy, it may be for a specific reason, e.g., to lift water so that farmers can irrigate their crops, or it may be for more general reason, i.e., to promote general economic development in market towns by making electricity available for industrial and other commercial uses and consumer applications that contribute to productivity increases and/or better standards of living.

It is important for project designers to understand the ways in which energy is used and/or transformed in projects, the efficiency with which alternative approaches to implementing a project use or create energy and the long-run and short-term cost implementations of project choices concerning the use of renewable and non-renewable energy sources and the processes used to product secondary forms of energy. AID policy requires that all projects, whether they are designed with the explicit intent of using and/or transforming energy or whether they simply consume energy in the course of other efforts, be examined to determine whether the proposed approaches to energy consumption and/or production are inherently efficient and cost effective (in the long-run as well as in the short-term). Also, in situations where choices can be made, AID projects should conserve those physical energy resources which are considered scarce from the point of view of a developing country, and globally, by electing to harness such renewable energy sources as the sun rather than depleting a country's stock of non-renewable resources or requiring the country to import such resources in order to undertake and maintain projects and programs. Appendix O to this chapter provides additional guidance concerning the procedures to be used in assessing the appropriateness, efficiency and cost implications of project choices concerning the production of energy use.

8. Environmental Considerations

As covered in Chapter 2 and Appendix 2D, every proposed activity needs to be looked at with respect to its impact on the environment. If an Environmental Assessment or an Environmental Impact Statement was required as part of the earlier (PID) review process, then project designers will have to organize their development work to accommodate the requirements of such investigations. Appendix 2D and the earlier AID decisions with respect thereto will provide the guidance needed to undertake this investigative/analytical work. Like other analyses, such will have to reach a required state of conclusion prior to project approval or obligation.

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9. Gender Considerations

Project analysis documentation should include the following:

(a) discussion of the extent to which sex-disaggregated data is available in all references to participants and beneficiaries in the PP;

(b) discussion of constraints to women's participation and opportunities for enhancing women's participation;

(c) identification of strategies to overcome these constraints or to make use of these opportunities and benchmarks against which to measure progress.

However, when gender disaggregated data and benchmarks are not available at project design stage, activities are required to be included in the project to ensure subsequent analysis as to what the obstacles are and how these obstacles are and how these obstacles are to be surmounted during the life of the project.

10. Analyses for Special Projects

In addition to the forgoing guidance, some specific projects or funding modes may dictate that more emphasis be given to certain factors or that special analyses be undertaken. One such requirement (Section 611(b) of the Foreign Assistance Act) specifies that:

> "Plans required under subsection (a) for any water or related land resource construction project or program shall include a computation of benefits and costs made insofar as practicable in accordance with the procedures set forth in the 'Principles and Standards for Planning Water and Related Resources', dated October 25, 1973."

Guidance for performing such analyses may be obtained from the AID/W, Office of Engineering. Designers are encouraged to contact their Geographic Bureau, appropriate S&T office or PPC for assistance with other special analyses.

3D. Project Development Procedures

1. General

a. Project design and analytical tasks reviewed in the proceeding paragraphs show that project development is a complex undertaking in a number of separate but interrelated areas. It is, therefore, useful to

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view project development as a process which in itself requires planning so that different tasks may be scheduled in proper sequence and the necessary expertise marshalled in time. Giving some thought to the nature and timing of actions necessary to complete the project design will help minimize delays and frustrations that are created when critical studies or analyses are found, after months of work, to lack essential data, precise cost estimates, documented analysis of alternatives or other information. (Such shortcomings often then have to be overcome by initiating other analyses or studies.) It is thus advisable to begin the project development process with the formulation of a plan which details the tasks to be accomplished and shows which parties (AID, B/G, consultants, etc.) will do what, in what sequence and by what time. (See also paragraph 6 below.) The time and effort spent on such planning will usually be more than offset by avoidance of false starts and repetitive actions. The following subparagraphs discuss some typical tasks which should be included in planning for project development.

b. B/G and AID Field personnel should perform as many project development tasks as the size and composition of available staffs permit. If, however, field staffs are inadequate in number or short on relevant project development or implementation experience, the Mission should seek assistance from AID/W and/or external consultants. On the AID side, it is normally the responsibility of field staff, however, to schedule and coordinate project development tasks, no matter who performs them. In doing so, the interrelationship between different tasks, which is repeatedly pointed out in the following discussion, must be considered. Project development, therefore, requires a team effort and must be organized with that concept in mind.

c. In Missions with sufficient staff to make this possible, the constitution of a Project (Design) Committee usually is the best mechanism for the coordination of project development tasks. The Committee should include personnel representing all types of expertise required during project development. Depending on the nature of the project, it could include staff members of the Program Office, Technical Office, Engineering Office and the Controller. Such Project Committees also normally include a Capital Development Officer, Administrative/Contract Officer, Procurement Specialist, and the Legal Advisor. To make Committee coordination and operations more efficient, an individual is designated as the responsible Project Officer; he/she acts as Chairperson of the Project Committee. Even if certain project development tasks are assigned to AID/W personnel or consultants, the Project Committee is a very useful device for providing continuing support to the Project Officer re scheduling and coordinating the

3D1c

overall effort. Committee expertise is also helpful and often essential for locating outside consultants and in bringing Mission expertise to bear on design decisions that must be made throughout the project development process, especially regarding the development of an implementation plan. (See also paragraphs B5c and B5d of Chapter 8, where the roles of the Project Officer and Project Committee during implementation are discussed.)

2. Data Collection and Analysis

a. The first step in data collection and analysis should be to examine what kind of information will be needed and in what degree of detail. The initial result of that examination may have to be modified at later stages in the process and some latitude may be given to the discretion of those collecting the data. In any event, a decision must be made from the outset on the type of information needed not only for the purpose of designing the project but also for evaluating the project during or after its implementation ("baseline data").

b. If the expertise needed for the analysis of data requirements is not available in the field, assistance should be sought from AID/W or through contracts with outside consultants. The scope of work under which a member of the field staff, an AID/W officer or an outside expert would operate should be based on information needed beyond that generated or collected as part of PID the preparation. Such scopes of work should be as specific as possible regarding information objectives, data collection techniques, assessment needs, timing and coordination with other personnel. Preparing scopes of work for field staff is likewise advisable to ensure there is agreement on the work to be done and that the combination of efforts will meet all data collection and assessment requirements.

c. If a "Feasibility Study" has been undertaken or is in progress, the scope of work under which that study has been or is being performed often includes the collection of the data necessary for appraisal of a project. This will normally be the case for capital projects which are usually well defined from the outset. Such studies should be checked, however, to ensure that all information needs and aspects to be considered by AID are covered. (Environmental matters and social questions are topics most often requiring supplemental studies.)

d. The tasks of collecting and analyzing data can often be performed under the same scope of work. Whether done this way or by having to specify with precision what collection methods and types of analyses are to be carried out. Coordinating the two is essential

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because different experts may have different views as to the objectives and methodologies involved. Scopes of work must be precise in defining the purpose for which analyses are to be used, i.e., the kind of design decisions which are to be based on conclusions reached by the analysts. The analytical work will be determined to a large extent by the questions asked in the scope of work for the study; a study to answer, inter alia, the question whether a credit element is needed in an agricultural production project will differ in content from one which is to specify at which particular locations credit offices should be opened, or how a new credit institution should be staffed. In the latter two cased, the first question (is a new institution needed?) is implicitly already answered and may therefore not be examined in the study. Any of these formulations may be the correct one in the particular case; the point is to be sure about what is known on the basis of already available information and to make sure that the study provides information on questions which affect the project design. (See PPC/E Handbook, "Manager's Guide for Date Collection and Analysis," for further information on data collection.)

3. Other Design Tasks

Other design tasks discussed in paragraph B.1., above, can be performed in a number of ways. Design teams made up of Borrower/Grantee officials, Mission staff, AID/W personnel or combinations thereof can be charged with the definition of project objectives, design of the project elements, preparation of cost estimates and financial plans and decisions on other aspects of the project design. The same persons who perform data collection or analysis activities might be able to assist with these tasks. In making the arrangements for such tasks, however, it is important that Borrower/Grantee and Mission staff participate, at a minimum, in substantive design discussions and decisions. Otherwise, the Borrower/Grantee and Mission could be put in the position of being responsible for the approval and implementation of a project whose design they only superficially understand.

4. Coordination with the B/G

One aspect of project development in which the Mission staff must participate is the coordination of project design with the B/G. Mission staff must be actively involved in periodic reviews and consultations because negotiation of a Project Agreement must be conducted against the background of earlier consultations. The Mission must be alert to personal attitudes and possible reservations of the B/G (e.g., as to methodology, commitment) which become apparent during consultations at advancing stages of the project design. This is especially important regarding conditions and covenants which might have to be included in

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the Project Agreement. If there are serious objections on the part of the B/G, such issues should be dealt with through modifications of the evolving design or, if such details cannot be satisfactorily resolved, suspension of the design effort. Serious design issues or differences of opinion between AID and the B/G, e.g., on project methods, must be eliminated during project development if implementation difficulties are to be avoided.

5. Coordination with Co-financing Institutions

If a project is be financed in part by another donor or financing institution, coordination with such entities must begin as soon as co-financing possibilities have been accepted in principle by all parties involved. Decisions about project details and donor arrangements may affect the design of project elements; such will almost always affect the financing plan and may impact on the procurement and implementation plans. Inter-donor collaboration and, coordination should, therefore, begin as early as possible during project development. The nature and extent of collaboration with other donors will, of course, depend on their own requirements, procedures and staff availabilities. They should, however, be kept informed on matters of particular interest to them. It is usually best to agree with them from the outset on procedures to be followed and on the matters which will require mutual agreement both during project development and implementation.

6. Project Development Schedule

a. The multiplicity of design tasks to be accomplished, and the interrelationships between many of them, makes it advisable to construct a schedule listing each action to be taken in proper sequence and showing the estimated time needed to complete it. Scheduling tasks and the steps leading to their completion serves three purposes: helps establish a realistic estimate of the total time and resources required for developing a project and preparing a PP; provides a basis for updating those estimates as project development activities proceed; and, finally, provides a general framework for administering actions that must be taken so that project development is executed efficiently and within the time desired. The latter is especially important when a project initiation must be tightly controlled, e.g., for weather or budget reasons.

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b. A sample of a project development schedule is shown in Attachment 1, immediately following the text of this Chapter. Not all of the steps listed will be relevant to all projects. The purpose of the sample schedule is merely to illustrate what type of actions may be included. Any other format or techniques which accomplishes the same purpose would, of course, be satisfactory.

3E. Project Presentation - The Project Paper

1. Purpose

The presentation of the project in the PP serves two purposes, i.e., to provide (i) the basis for approval of the project by the appropriate AID official (see Section E in Chapter 5 for discussion of authorizing officials); and (ii) in summary fashion, a historical record of the original project rationale, description of project elements, analyses support the proposed design and initial project implementation and monitoring plans. Both of these purposes must be kept in mind during the preparation of the PP.

2. Content

a. General: The content of the PP is determined by its two purposes. It must contain the information needed by the Authorizing Official to make the decision whether the project should be approved as presented and it must be useful as a historical record. Information and/or materials which should normally be included in the PP are shown in the following outline and discussed in subsequent paragraphs. Notwithstanding, the authorizing official may approve the deletion of some of the items listed if they are adequately documented elsewhere, (e.g., in a previous AID PP or another donor's project document) or if the project is of a smaller magnitude. (See discussion of documentation requirements for small value activities in Chapter 4.)

b. Standard Project Paper Outline: The following sequence of information should be used for all PPs. A brief discussion of each is provided in paragraph 2c below.

(1) Project Data Sheet

(2) Draft Project Authorization

(3) Project Rationale and Description

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(4) Cost Estimate and Financial Plan

(5) Implementation Plan

(6) Monitoring Plan

(7) Summaries of Analyses

(8) Conditions and Covenants

(9) Evaluation Arrangements

(10) Annexes, as follows:

(a) PID Approval message

(b) Log Frame Matrix

(c) Statutory Checklist

(d) B/G request for assistance

(e) FAA, Section 611 (e) certifications, if applicable (See Appendix 3L or Appendix 4B, G1)

(f) Project Analyses, as follows:

(i) Technical

(ii) Financial

(iii) Economic

(iv) Social Soundness

(v) Administrative

(vi) Environmental (if appropriate)

(vii) Energy (if appropriate)

(viii) Women in Development

The foregoing Annexes are normally required. However, if these are already in an official form, e.g., a consultant's approved environmental analysis, they could be retained separately in official files. The summary would, nonetheless, be required.

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c. Discussion of PP Sections

Guidance on or references covering the content of each of the foregoing PP sections are provided below.

(1) Project Data Sheet

The form to be used and information to be shown thereon are described in detail in Appendix 3A.

(2) Draft Project Authorization

The contents of the Project Authorization are described in detain in Chapter 5. The draft Authorization should be prepared by, or with the assistance of, the appropriate legal advisor in the field. In Washington, legal advice is provided by GC. After approval of a project, a copy of the signed Authorization will be substituted for the draft before the PP is printed.

(3) Project Rationale and Description

Under this heading are to be presented the substantive aspects of project design elements discussed in paragraph B3. This section should give the reader a brief summary to understand from the outset the type of undertaking being proposed. This section should include:

(a) A brief review of the rationale for the project, stating why the project should be undertaken and putting it in the context of AID's country development strategy statement and the recipient's own development plans.

(b) A discussion of project objectives, clearly outlining the relationships between different levels of objectives (outputs, purpose and goal). If not covered in the Log Frame annex, this section should also discuss those relationships.

(c) The Project Elements:

(i) a description of the nature and scope of inputs to be provided and actions to be taken; (ii) identify project units or sites; (iii) describe project participants and responsibilities for project execution (with references to Section 5, where the Implementation Plan is discussed in greater detail); and (iv) identify project beneficiaries and describe how and to what extent they are to

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take part in and benefit from the project. This discussion should also make clear the relationship(s) between project elements and the objectives and the extent to which participants and beneficiaries have been involved in project design.

(4) Cost Estimate and Financial Plan

Cost estimates and the financial plan should be presented in the format shown in Appendix 3B or other format(s) if more suitable for the specific project. A breakdown of costs (inputs) by Foreign Exchange and Local Currency and by sources (funding or contributions in kind) must, however, be included. In addition, the method used in estimating project costs should be briefly explained or the financial analysis referenced to permit an assessment by the reader of their reliability and completeness. If contributions from sources other than AID and the B/G are to be used in financing part of the project (e.g., co-financing, private sector loans or investments), the proposed arrangements should be described and the status of negotiations explained. If a project contains a participant training component, the cost estimate for that component should conform to the training cost Analysis framework.

(5) Implementation Plan

Implementation planning should cover the entire period from authorization of the project to its completion and contain a description of responsibilities to be assumed by the B/G, the Implementation Agency, AID, and any other donors and/or participants. The narrative should be supported by appropriate annexes (i.e., schedules, bar graphs or networks), including a procurement plan if the project will involve significant and complex procurement actions.

The procurement plan should indicate the kinds of goods and services to be procured, their probable sources, the contracting modes and procedures to be used, general logistics arrangements and the specific procurement and contracting responsibilities envision for the B/G, AID and other donors or participants. If a procurement services agent is to be used and/or waivers of requirements and procedures contemplated, such should also be discussed. If not already secured and to the maximum extent practicable, waiver requests should be addressed as part of PP documentation and their approval sought as part of the authorization process. (See Chapter 5.) When training is a significant component of a bilateral project, the Project Paper should require the host country to present a training plan acceptable to AID prior to expenditure of initial funds for training. This plan should include but not be limited to:

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- an overview of overseas and in-country training by year for the duration of the project,

- criteria for participant selection,

- a detailed, time-phased, twelve-month implementation plan including a list of candidates already identified for each training activity, pre-departure activities, testing dates, remedial study requirements, refined budgets, etc., and

- annual evaluation, planning/implementation schedule.

(6) Monitoring Plan

Arrangements for monitoring, including an assessment of the adequacy of AID staff for performing monitoring tasks, should be described. (See Chapter 11 for a discussion of Monitoring.)

(7) Project Analyses

A summary of analyses (i.e., economic, financial, social, technical, administrative, energy, environmental, women in development, and, if applicable, participant training issues) performed during project development should be presented in the body of the PP. Gender considerations must be integral to all these analyses and must be reflected as appropriate. It should, however, be limited to a brief review of the analyses carried out, the methodology used and the conclusions drawn. (See Section 3C above, for a discussion of Project Analysis.) A more detailed presentation of the analyses should be included in the Annex Section of the PP. The complete text of an analytical study should be included only if such is essential to understanding project elements and if it fits with other materials within the overall volume limitations on annexes established in paragraph 3a. The analytical material presented in the body of the PP and in its Annexes should be held to a level of detail which permits the reader to form an independent judgment on: (i) the adequacy of the analyses as a basis for the conclusions reached by the analyst, and (ii) the validity of the conclusions as a basis for project design.

(8) Conditions and Covenants

All Conditions and Covenants proposed for inclusion in the Project Agreement should be listed and the reasons for their inclusion cited. "Essential" conditions and covenants (see paragraph B5c, above) should be included in the Draft Authorization.

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(9) Evaluation Arrangements

Made or to be made for the collection of baseline data (if not yet completed), for follow-up surveys and the analyses of such data preparatory to or as part of possible project evaluations should be described.

(10) Annexes

Explanations of both required and optional Annexes are given below unless they are included elsewhere in this Chapter.

(a) PID Approval Message - self explanatory;

(b) Log Frame Matrix - see Appendix 2F);

(c) Statutory Checklist - see Appendix 3M);

(d) B/G Request for Assistance

AID policy requires receipt from the B/G of a request for the specific assistance to be provided under the project. Such request should state the amounts to be provided by AID, by the B/G and from any other source of funds, and include a brief statement of the general objectives of the project. It should be signed by an official of the B/G charged with coordination of economic assistance in the country, e.g., in the Ministry of Finance, of Foreign Affairs or governmental planning entity.

(e) FAA, Section 611 certifications (if applicable) - see Appendix 3L and Appendix 4BG1

(f) Other Annexes -

- Project Analyses - (7), above,
- Procurement List - see (5), above,
- Implementation Schedule and Charts - see (5), above,
- Other, including maps, site plans or other information too detailed to be included in the body of the paper but necessary for a complete understanding of the proposed activity.

3E

3. Form of PP

a. Length. The body of the PP should generally not exceed 50 pages. Annexes attached thereto should deal with substantative matters (analysis, implementation planning, statutory checklist, etc.) and not exceed 70 additional pages.

b. Organization. Organization of the PP should follow the Outline in paragraph E2b, above. Readers should number the Sections consecutively and the paragraphs in each Section (e.g., 1.1, 1.1.1, etc.), depending on the internal organization of each Section. This method of numbering is, however, not mandatory.

c. Cross-References. To minimize duplication of materials and facilitate locating related parts of the PP, it is advisable to reference or cross-reference other Sections or Annexes to the PP dealing with the same or related subjects. Materials too voluminous to fit within PP length guidelines in 3a above may be referenced and retained as separate documents in the official project files (e.g., consultant's study).

4. Preparation and Submission

a. Responsibility for Preparation

(1) PPs for bilateral and multilateral projects are normally prepared by the office which was responsible for the direction of project development. Separate sections of the paper, particularly those dealing with project analysis, are frequently prepared by those most familiar with the subject matter, i.e., members of the Project Committee, consultants or other AID or B/G staff. It is advisable, however, that one person act as editor towards the end of PP preparation to ensure that all aspects are adequately covered, repetitions are minimized and that all sections are consistent with each other.

(2) PPs for centrally funded projects are normally prepared by the office which initiated or sponsored the PID and/or was responsible for project development. (See Chapter 4 for procedures regarding PVO and other such projects.)

b. Responsibility for Submission

Assignment of responsibility for submission of PPs and submission procedures vary depending upon which organizational entity will review the PP and which officer will be the authorizing official.

3E4b

(1) PPs to be reviewed within a field mission shall be submitted in accordance with mission and parent Bureau procedures.

(2) PPs to be reviewed by a Bureau in AID/W shall be submitted under signature of the Mission Director or, as appropriate, the cognizant AID/W Office Director.

5. PP Processing and Reviews

a. PP Processing

-- PPs which will be approved in field missions shall be processed and reviewed in accordance with mission and, if required, cognizant Bureau procedures.

-- PPs which will be approved by cognizant Bureau Assistant Administrator or their designers shall be processed and reviewed in accordance with Bureau procedures.

-- PPs which will be approved by the Administrator (and those identified by PPC at the PID stage as having special policy implications) will be processed and reviewed in accordance with PPC and cognizant Bureau procedures.

b. PP Review Procedures

-- Project Paper review procedures, whether defined at field mission or Bureau levels, should incorporate the following features:

-- an Issues Paper should be prepared to guide the review and be a record of salient design features, risks or other issues which need attention during the review (the scope of the review should be tailored to the character of the project.) Where there is a training component, the adequacy of the design team's training assessment is to be reviewed.

-- recommendations to approve or disapprove and/or guidance resulting from the review should be formalized and promptly communicated to the submitting office.

-- parallel processing actions, e.g., Congressional Notification, budget adjustments, waiver requests and approvals, should be handled promptly by the cognizant submitting and/or AID/W backstopping office.

3E5

c. Review Committee Membership

Bureau Project Review Committees normally include bureau GC and FM representatives. Depending upon the project and its design, S&T, M/SER/CM, M/SER/COM and PPC participation may also be appropriate. Field mission Review committees should be made up of comparable organizational skills (e.g., Regional Legal Officer, Controller, Contracts Officer or Supply Management Advisor).

6. Project Paper Approval and Distribution

a. Project Review Committees approve PPs and/or make recommendations to the authorizing official regarding project approval, modification or disapproval. The authorizing official formally approves a project by signing a Project Authorization. (See Chapter 5.) If the project is authorized, a signed copy of the Authorization is put in the front of the PP prior to its printing and distribution.

b. PP distribution shall be in accordance with Bureau procedures. Two copies of the PP are, however, to be sent by the Mission or Bureau to the AID Reference Center (S&T/DIU).

(CONTINUE ON PAGE 3-44)

PROJECT DEVELOPMENT SCHEDULE

Steps	Date Start	Date Completion	Elapsed Time
1. Detailed Statement of Objectives			
-- Review of Logframe in PID			
-- Completion of Logframe			
-- Listing of Assumptions			
2. Preliminary Determination of Project Elements			
3. Data Collection and Analysis			
-- Preparation of Scope of Work			
-- Contracting			
(a) Preparation of PIO/T			
- Contracting Period			
or			
(b) Solicitation of Proposals by B/G			
- Contracting Period			
-- Study Period			
-- Review of Draft Report			
-- Discussion with Consultants			
-- Final Report			
4. Special Studies (Economic, Social Financial, Administrative)			
-- Preparation of Scope			
-- Contracting Period			
-- Study Period			
-- Review of Draft Report			
-- Discussion with Consultants			
-- Final Report			
5. Review of Studies by and with B/G			

6. Detailed Design of Project Elements

   -- Preparation of Design
   -- Review with B/G

7. Review of Assumptions in Logframe

   -- Determining Required Conditions and Covenants

8. Consultations with Co-Financing Institutions

9. Preparation of PP

   -- First Draft
   -- Rewriting and Editing
   -- Preparation of Draft Authorization

10. Processing PP

   -- Mission Review
   -- Revision of PP
   -- Submission to AID/W

TOTAL ELAPSED TIME FROM STARTING DATE OF STEP 1 TO COMPLETION DATE OF STEP 10 _____

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

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

Amendment Number

DOCUMENT CODE 3

COUNTRY/ENTITY

3. PROJECT NUMBER

4. BUREAU/OFFICE

5. PROJECT TITLE *(maximum 40 characters)*

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)
MM DD YY

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

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

A. FUNDING SOURCE	FIRST FY ____ B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	( )	( )	( )	( )	( )	( )
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS						

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1)									
(2)									
(3)									
(4)									
TOTALS									

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

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES *(maximum 7 codes of 4 positions each)*
A. Code
B. Amount

13. PROJECT PURPOSE *(maximum 480 characters)*

14. SCHEDULED EVALUATIONS
Interim MM YY MM YY Final MM YY

15. SOURCE/ORIGIN OF GOODS AND SERVICES
000 941 Local Other *(Specify)*

16. AMENDMENTS/NATURE OF CHANGE PROPOSED *(This is page 1 of a ____ page PP Amendment.)*

17. APPROVED BY
Signature
Title
Date Signed MM DD YY

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

INSTRUCTIONS

The approved Project Data Sheet summarizes basic data on the project and must provide reliable data for entry into the Country Program Data Bank (CPDB). As a general rule blocks 1 thru 16 are to be completed by the originating office or bureau. It is the responsibility of the reviewing bureau to assure that whenever the original Project Data Sheet is revised, the Project Data Sheet conforms to the revision.

Block 1 - Enter the appropriate letter code in the box, if a change, indicate the Amendment Number.

Block 2 - Enter the name of the Country, Regional or other Entity.

Block 3 - Enter the Project Number assigned by the field mission or an AID/W bureau.

Block 4 - Enter the sponsoring Bureau/Office Symbol and Code. *(See Handbook 18, Appendix D.)*

Block 5 - Enter the Project Title *(stay within brackets; limit to 40 characters).*

Block 6 - Enter the Estimated Project Assistance Completion Date. *(See Chapter 7 B. 7.)*

Block 7A. - Enter the FY for the first obligation of AID funds for the project.
Block 7B. - Enter the quarter of FY for the first AID funds obligation.
Block 7C. - Enter the FY for the last AID funds obligations.

Block 8 - Enter the amounts from the 'Summary Cost Estimates' and 'Financial Table' of the Project Data Sheet.
NOTE: The L/C column must show the estimated U.S. dollars to be used for the financing of local costs by AID on the lines corresponding to AID.

Block 9. - Enter the amounts and details from the Project Data Sheet section reflecting the estimated rate of use of AID funds.
Block 9A. - Use the Alpha Code. *(See Handbook 18 Appendix D, for guidance.)*

Blocks 9B., C1. & C2. - See Handbook 18, Appendix D for guidance. The total of columns 1 and 2 of F must equal the AID appropriated funds total of 8G.

Blocks 10 and 11 - See Handbook 18, Appendix D for guidance.

Block 12 - Enter the codes and amounts attributable to each concern for Life of Project. *(See Handbook 18, Appendix D, for coding.)*

Block 13 - Enter the Project Purpose as it appears in the approved PID Facesheet, or as modified during the project development and reflected in the Project Data Sheet.

Block 14 - Enter the evaluation(s) scheduled in this section.

Block 15 - Enter the information related to the procurement taken from the appropriate section of the Project Data Sheet.

Block 16 - This block is to be used with requests for the amendment of a project.

Block 17 - This block is to be signed and dated by the Director of the originating office. The Project Data Sheet will not be reviewed if this Data Sheet is not signed and dated. Do not initial.

Block 18 - This date is to be provided by the office or bureau responsible for the processing of the document covered by this Data Sheet.

APPENDIX 3B

COST ESTIMATING AND FINANCIAL PLANNING

This appendix provides additional guidance on the preparation of project cost estimates, the shaping and development of a financing plan, i.e., the "packaging" of various participant and donor contributions, and suggested formats for arranging cost/input supply information in project presentation documents. While costing of inputs and operations is a critical element to the testing of financial and economic feasibility, such analyses are not discussed herein. For information on financial and economic analyses, see, respectively, Appendices 3D and 3E.

A. Preparation of Cost Estimates

The preparation of cost estimates should be undertaken concurrently with other input and output design tasks because the cost of adopting a particular course of action may affect its feasibility. It is, therefore, advisable to attach a "price tag" to each project element as soon as it is being seriously considered for inclusion in the project, even though the first estimate may be no more than a "ball-park" figure. As more detailed features of the element and its inputs are developed, the estimate should be refined so that completion of the cost estimate will proceed simultaneously with specification of the potential elements. The preparation of estimates in the incremental fashion will also make it possible to determine well before project design is completed whether it will be economically feasible and whether cost estimates are comparable to those contained in the PID. If the activity is projected to cost substantially more than was estimated at the PID stage, especially the AID portion, consultation with the cognizant Bureau will be necessary. The identification of significant cost increases may precipitate a search for other institutions which might help finance the project and/or result in the adjustment of inputs, outputs or objectives. For such reasons, the preparation of cost estimates should be evolutionary and not be postponed until late in the design sequence.

The difficulty of preparing cost estimates varies with the number and type of elements to be included in the project. No matter what the degree of difficulty, great care must be taken to arrive at realistic sources and cost estimates since

financing cost overruns can cause delays and/or operational problems. Even though the B/G obligates itself in the Project Agreement to provide all funds not contributed by AID (see Section 3.2 of the Model Project Agreement in Chapter 6), it is often, in fact, not able to do so. Also, there is never any assurance that AID and/or other donors will later be able to increase their funding. Most importantly, however, if project inputs, elements and benefits are not costed and valued accurately, the project economic analysis could be upset, resulting in abandonment of the activity after significant resources are invested. Timely and accurate costing can thus be crucial to project success.

The first step in costing is to prepare a realistic list of inputs and their probable source(s) of supply and then a "base cost" estimate, i.e., an estimate using current market prices at the time of preparation. Foreign exchange costs and local costs should be estimated separately. A number of tools are available for that purpose. For estimating consulting or similar services, experience with recent contracts of a like nature can be used; such contracts should provide cost per person/month or person/year and the budget for such items as allowances and travel. Costs of materials and equipment to be imported for the project can be based on recent experience or obtainable from feasibility studies prepared for the project. If neither is available, SER/COM in AID/W is usually able to obtain useful cost data. If large physical facilities are part of the project, a feasibility study will normally have been prepared which includes input lists and cost estimates. Information on the cost of goods and services to be purchased locally is usually available from government agencies and local commercial sources.

Preparing a "base cost" estimate in current prices is not sufficient. Two types of contingency allowances must be added--one to account for accidental omissions, errors in estimating the quantities of commodities or the number of person/years needed (in construction projects called "physical contingencies"), the other to account for inflation (often called "escalation"). Estimating the physical contingency allowance is a matter of experience and judgment. Such estimates should take into consideration the reliability and level of specificity of information used in preparing the base estimate. The physical contingency is usually expressed as a stated percentage of the base estimate and should normally not be less than 10 percent. Although estimating allowances to be

made for cost escalation also involves judgment, it requires, in addition, an estimate of the time at which contracts for goods and services will be concluded and/or costs thereunder fixed. First, the annual rate(s) of inflation must be estimated for the period(s) during which purchases will be made, separately for foreign exchange purchases and local costs. The estimate of such rates can be based on general economic and commercial forecasts for the areas to be used as sources of procurement. If no adequate information is available in the field, the geographic bureau in Washington should be consulted. At best, the estimated inflation rate will be an educated guess, particularly if project implementation stretches over a lengthy period. The escalation factor is then applied to the adjusted base estimate and the calculated amount added to the base estimate. The rate(s) used should be explicitly identified. In large projects, it is advisable to calculate the amount to be allowed separately for each year during which purchases are expected to be made. If calculated in this manner, the cumulative escalation allowance is applied to those purchases which are to be made during that particular year in the project schedule. This is usually more accurate than applying an "average" rate to the entire base estimate for all years in which purchases are to be made. If figured on the annual basis, it will also be easier to adjust costs when assessing or recalculating for time delays later in the project implementation period.

B. The Proposed Financing Plan

As soon as preliminary cost estimates have been made, work on the Financing Plan should begin, taking into account AID's budgetary constraints and the limitations on funds which the B/G can be expected to contribute. The Financing Plan describes the type, quantity and timing of financial contributions to be made by the B/G, AID and, if any, other financing institutions. The completed plan should not only indicate the overall allocation of financial responsibilities, but should also show from which source or sources each individual project element will be financed. Again, early start and evolutionary development of the Financing Plan will permit progressive discussions with the Borrower/Grantee as to its expected financial contributions. Leaving financing details to the last minute (e.g. B/G foreign exchange contributions to finance inputs ineligible under AID rules),can seriously disrupt negotiations and delay the beginning of project implementation. As the design of project elements

proceeds and cost estimates are refined, the Financing Plan should be kept under constant review to ensure that it remains accurate and compatible with the abilities of participants' proposed contributions.

Based on the cost estimate, the amounts to be provided for foreign exchange and local costs must be separated. Generally, AID (and other donors, if any) assumes responsibility for financing foreign exchange costs. In a few cases, however, provisions are made for financing some foreign exchange costs with B/G funds. This is usually done where the B/G has foreign exchange resources it can make available for project goods and services and such can advantageously be purchased from a country not included in the AID source code applicable to the project (or made eligible by an AID "source waiver"). Normally, B/G funds are used to finance local costs only. (See also (c), below.)

In many projects, funds available from the B/G are not sufficient to finance all local costs. In such cases, AID may assist in the financing thereof. The types of local goods and services which may be financed and the proportion of the project budget which should be allocated therefor is a project development decision that is usually country specific. Project designers and/or USAIDs should therefore consult with their respective bureaus for guidance as to appropriate proportions or levels of such local cost financing.

Local Costs which AID may finance are those project costs which fall into one of the following categories:

-- "Indigenous goods". i.e., those which have been mined, grown or produced in the country of the B/G through manufacture, processing or assembly (see HB 1B, Chapter 18, paragraph A3);

-- services furnished by corporations or partnerships which are organized under the laws of the country of the B/G and are more than 50 percent beneficially owned by citizens of that country and services furnished by individuals who are citizens of that country. (See HB 1B, Chapter 5, paragraph C1b and HB 11, Chapter 1, paragraph 2.6.2.1 for a complete definition of "Nationality".)

-- "shelf items" i.e., items imported from other countries and kept in stock for general sale, up to the limits specified in paragraph A4b, HB 1B, provided that the items were imported from a country included in AID Geographic Code 899.

-- monies or "revolving funds" made available to intermediate credit institutions or governments for project related purposes but not necessarily for identifiable purchases of goods or services.

Other categories of local costs might be financed by AID under blanket or specific waivers provided for in HB 1B. Such other categories might include, services provided by a firm which is less than 50 percent owned by citizens of the B/G country.

Goods imported specifically for the project are considered foreign exchange costs even if they are purchased from a local supplier and paid for in local currency; the procurement of such goods is, therefore, subject to the rules and guidance in HB 11 or HB 15.

When the Financial Plan has reached its final form, the timing when funds must be made available from all funding sources must be determined, whether the contributions to the project are to be fully funded from the outset or incrementally funded. In the former case, this is necessary to enable the B/G to budget for the funds it is to contribute; timing of funding in the latter case will serve as a basis for programming and budgeting both by the B/G and by AID. This aspect of the financial plan must be developed in conjunction with the Implementation Schedule which will show when the physical activities and contracting actions are expected to take place and thereby precipitate financial commitment or payment obligations.

The final element of financial planning is the preparation of a disbursement schedule by fiscal year. That schedule, which must also be consistent with the Implementation Schedule, is frequently needed by AID to forecast its overall expenditures and serves as one of the tools used in monitoring project progress.

C. Possible Financing Arrangements

1. General

If AID is not financing a project on its own (as with an activity funded exclusively, for example, by a central bureau

in AID/W), it is joining one or more participants or donors in the shared supply or financing of project inputs. By far the most common arrangement is where AID and the Borrower/Grantee, and perhaps some participant(s), are contributing to the cost of inputs and/or subsequent project operating expenses, i.e., recurrent costs. Such arrangements are the assumed conditions for guidance provided in Chapters 1 through 4. Sample project authorizations (Chapter 5) and model project agreements (Chapter 6) are likewise generally formed around a "bilateral" (two parties--AID and the recipient country or Borrower/Grantee) financing arrangement.

There are, however, other ways to finance project inputs and needs. As the activity becomes larger (and more costly) or demands more complicated political, technological, management or supply configurations (and because of AID budgetary or source/origin issues, requires other donor involvement besides AID), we can turn to the option of multi-lateral financing and other mechanisms, e.g., "relending" or "two-step" financing. In reality, there are hardly any limits to the approaches which can be used to meet financing needs. (One potential exception, of course, is the prohibition against "co-mingling" of assistance, i.e., the outright blending or joining of AID funding in an activity being financed by a non-free world country.)

Some of the more common financing arrangement alternatives are discussed below.

2. Co-Financing

General. "Co-financing" is the term used to describe a number of possible arrangements which might be made between AID and one or more other financing institutions, e.g., the World Bank, Regional Development Banks, the OPEC Fund, Arab development funds, national agencies of other countries, to assemble a donor financial package which will assist a project. Co-financing arrangements can also be made with private banks or other private investors. Co-financing has assumed increasing importance for a number of reasons, one of which has already been mentioned, i.e., the inability of AID to finance all project costs not financed by the B/G. Other financing institutions may also find it impossible to finance a project by themselves and therefore look for additional funding sources. Financing institutions formed more recently may wish to associate themselves with more experienced or better staffed

agencies for the development and implementation of projects. From AID's point of view, co-financing is an attractive way to achieve development objectives it considers important but which require investments beyond its capabilities to supply. From the viewpoint of developing countries, it can be attractive because it involves the collaboration of several donor countries or international institutions in an effort to achieve mutually agreed upon goals. Such cooperative ventures can lead to increased development assistance for the recipient. Co-financing projects can, however, create special problems; and therefore often require special attention during project development, e.g., it can be extremely difficult, if not impossible, to bring about agreement on co-financing arrangements if the project design is too far advanced, and thus prevents interested donors from making needed inputs thereto.

There are two major types of co-financing described in "joint financing" and "parallel financing". "Joint financing" is an arrangement under which the participating financing institutions, in effect, pool their funds to jointly finance one or more elements of the project. "Parallel financing" is an arrangement under which each institution finances one or more discrete elements. These arrangements are discussed below.

(1) Joint Financing. Pooling funds to be contributed by AID and other institutions means that all expenditures for goods and services are financed by each donor in proportion to their contribution to the project or according to some other formula. This arrangement has the advantage that all funds contributed can be used, that there will be the widest competition consistent with sources of supply agreed upon between the co-financing institutions and that the project will, therefore, be executed at the lowest cost possible within those limitations. Multilateral institutions and recipients often prefer this arrangement because of these advantages and because of the relative ease of implementation. (Also, individual donor's funds don't have to be monitored and recorded separately.) For AID as well as for other donors whose funds are usually tied to certain source countries, joint financing is workable only if such donors are prepared to untie their funds, e.g., by waivers, to the extent compatible with project needs. Beyond possible source waivers, there may be some questions, i.e., relating to AID's audit rights, compliance with AID's cargo preference policy ("50/50 shipping") and similar implementation and monitoring matters

that must be addressed during the design. (It should be noted that the cargo preference policy, which is based on statutory requirements, cannot be waived; arrangements can be set up though to satisfy the requirement.) Similar problems may arise for other institutions.

(2) Parallel Financing. Under this arrangement, each of the co-financing agencies agrees to finance under its own rules and procedures one or more project elements or specific contracts. This is possible only if the project is divisible in a manner that permits the use of the funds to be contributed by each institution--i.e., the project must be divided into components, the cost of which, singly or in some combination, are estimated to equal the amounts of the various financial contributions. This arrangement requires particularly careful attention to co-financing issues during project development. (Projects using this approach should have some monies set aside that can finance contingencies and escalation with any one of the individual accounts; otherwise financing problems could result as the final expenditure period is entered and individual donor "accounts" completed and closed out (i.e., one doesn't want a single, underfunded account to hold up the whole project.)

(3) Other Arrangements. A great number of variations of these two basic financing arrangements are possible. For example, if a large construction contract is to be financed by another donor, it could be bid internationally with the proviso, (which would be stated in the Invitation for Bids), that construction equipment to be purchased in support thereof is to be financed by AID and therefore must be procured under AID regulations, including the applicable country code. Similar arrangements may be possible under large service contracts, i.e., by imposing on the internationally selected contractor the obligation to purchase goods or services valued at not less than a specified amount from suppliers in countries eligible under AID rules. In such case, AID could help finance needed inputs (through subcontracts) without having to insist on a U.S. prime contractor. Such arrangements have been made in the past and proved workable when adequate attention was given to monitoring responsibilities, the financing instruments and documentation needed for payments.

Co-Financing Design Considerations

It should be clear from the above discussions of co-financing arrangements that they require consideration and careful analysis of all factors involved. That analysis must focus on

the financing policies and procedures under which the other institutions involved operate, on their inherent conflicts and compatibilities, and on the characteristics of a proposed project. There is, therefore, no "ideal" arrangement that can be recommended for application in all circumstances. Co-financing, as with most other project design considerations, is project-specific. It follows that the need for desirability of co-financing a project must be reviewed as early as possible during project development if wasted motion and lengthy delays are to be avoided.

The considerations governing the design of projects for co-financing include, not necessarily in order of importance, the following:

-- Project Cost. It is always important to aim for the lowest possible cost of the project. Adherence to implementation and procurement approaches which optimize technical, economic and financial factors will keep overall costs down and help simplify project administration.

-- Design of Project Elements. To facilitate the task of matching funds available from different sources with project components (for parallel financing), project elements should be costed for each of the potential source areas and then grouped so as to keep overall project costs to a minimum allowable within the proposed financing package. Caution should be exercised, though, because arranging an optimum procurement plan (i.e., based on cost) can result in management and implementation difficulties. (See below.)

-- Ease of Implementation. The manner in which the arrangements contemplated will work during project implementation is a crucial consideration because delays and confusion can cost more than minor source differentials. To be considered are, in particular, approval rights which any or all of the contributing institutions will wish to retain and exercise, the complexity and cost of logistics, financing instruments and disbursing mechanisms, document flow, donor monitoring and reporting requirements.

-- Coordination Among Donors and with the B/G. Coordinating arrangements are necessary in co-financed undertakings and should be documented. Frequently this is done in a "Memorandum of Understanding" signed by all financing institutions and specifying rights and responsibilities for review and approval of documents (e.g., contracts or plans), mutual consultation in certain eventualities, sharing of information and reports, coverage of cost overruns and similar matters.

-- Satisfaction of AID Procedures and Requirements. The key points in this area are usually source/origin policies, including cargo preference, and AID audit, inspection and diversion rights. There is seldom substantive conflict between AID and other donor institutions on basic procurement contracting policies because the desire for competition and selection of the lowest responsive and responsible bidder are practically universally accepted, even though differences may exist on details, e.g., the manner in which a low bid is determined.

3. Relending (Two-Step Loans)

In some projects, the funds provided by AID, the B/G and any co-financing institutions participating in the project are made available to a revenue-producing entity which either is financially independent from the government, i.e., which operates with funds not subject to governmental budgeting procedures, or a "semi-autonomous " agency, i.e., subject to such budgeting procedures, but otherwise operating generally like a commercial enterprise. Such entities may be privately-owned companies or parastatal institutions, sometimes including the word "authority" or a similar designation in its name. When such entities are the "Implementing Agencies" for a project, the B/G's own policies may require, or it may be desirable from AID's point of view, to assign to it not only responsibility for all implementation tasks normally assigned to an Implementing Agency of the B/G (see Chapter 8 for a discussion of implementation tasks), but also primary responsibility for payment of funds, e.g., AID loans, and for compliance with all the obligations of the B/G flowing from the Project Agreement . Extension of B/G obligations are usually

accomplished by a "relending agreement" between the B/G and the entity. Such agreements are usually referred to as a "second-step loan" and the entire transaction, consisting of AID's agreement with the B/G and the relending agreement, referred to as a "two-step" loan or mode of assistance. Although obligations arising from the Project Agreement with AID are thus transferred, the B/G remains obligated to AID under the Project Agreement. Loans made by intermediate credit institutions to their customers do not fall into this category, but loans or grants passed onto such credit institutions by the B/G generally do.

When relending of funds is envisaged, the terms and conditions under which the funds will be relent, particularly the applicable interest rate and the terms of the secondary loan, must be thoroughly considered and assessed and agreed to by both the B/G and the second-step borrower during project development. The relending interest rate should generally reflect commercial lending rates, but may be higher or lower, depending on the nature of the project. The term of the loan should be based on an analysis of the cash-flow projections for the project; generally, it is in the range from five to 15 years. Since an AID loan to a B/G is normally repayable in dollars, the question whether the B/G or the second-step borrower will carry the exchange risk also must be resolved. All three factors, the term, the interest rate and the exchange risk, must finally be considered together to determine whether a given arrangement meets the criteria of (i) ensuring the second-step borrower's financial viability, (ii) consistency with the B/G's policies, (iii) a fair apportionment of risk between the B/G and its borrower, and (iv) consistency with the economic conditions in the country of the B/G.

Although these matters should be discussed and agreed upon during project development, the formal relending agreement is usually not signed until the Project Agreement is signed. Both agreements may be signed simultaneously if a draft relending agreement has been approved by A.I.D. (See "closing" requirements, Chapter 6.) In any event, approval of the relending agreement by A.I.D. is always made a Condition Precedent to Disbursement under a Project Agreement in which relending is contemplated.

D. To aid in the development and presentation of financing requirements and possible sources, the following tables have been used. Such tables or formats are suggested for use if suitable for the project being developed. Any format which provides a simple and complete picture of project financing sources and uses and the expected timing thereof, however, may be used.

Suggested Formats for Summarizing Budget/Financial Information in the Project Paper

(1) Summary Cost Estimate and Financial Plan (Table 1)

This table should depict the source and application of all project resources--both financial and in-kind. The following tables are to be based on this information.

(2) Costing of Project Outputs/Inputs (Table 2)

This table is intended primarily as a test of project design as well as to provide a basis for reviewing the cost estimates of the principal inputs. It can be used to examine whether inputs are proportionate to expected outputs and similarly, if outputs are proportionate to the expected purpose. Inputs should be listed in the left hand column and their costs apportioned (pro-rated if appropriate) to the project outputs listed in the Logical Framework. The inputs should be presented in a manner that makes them most meaningful for understanding the project--standardized components are not recommended. "Summary" (i.e. for all project inputs, regardless of source) "AID Appropriated" and "Host Country" tables are required for all projects. Data for "Other U.S.," and "Other Donors" should also be submitted as appropriate.

(3) Projection of Expenditures by Fiscal Year (Table 3)

If AID expenditures are to be financed by separate appropriations, i.e. using "incremental funding" techniques, then a separate table should be added which indicates which inputs are to be financed with what monies. Such is necessary for providing insight into risks of future funding shortages.

(This is a suggested format; it can be modified to suit particular projects.)

TABLE 1

SUMMARY COST ESTIMATE AND FINANCIAL PLAN
(US $ 000)

PROJECT PAPER

Source	AID**		Host Country		Other(s)+		Total
	FX	LC	FX	LC	FX	LC	
Use*							
Inflation factor							
Contingency							
Total							

* List major project elements (inputs).

** Show AID total; however, if different funding is proposed (loan, grant, different appropriations) provide breakdown of AID contribution in a separate table.

\+ May be used for other assistance, e.g., HG, P.L. 480 Title II, etc., furnished by the United States outside of AID-appropriated funds. Where other donors are involved, a separate column should be added for each significant donor.

TABLE 2

COSTING OF PROJECT OUTPUTS/INPUTS
(In $000 or equivalent)

___New
___Rev # ___

Project # _____ Title _____

Project Inputs	Project Outputs				TOTAL
	# 1	# 2	# 3	# 4	
AID Appropriated					
Other U.S.*					
Host Country					
Other Donors*					
Total					

* Single line entry is acceptable unless this item is more than 25% of the project or more than $1 million.

(This is a suggested format; it can be modified to suit particular projects.)

TABLE 3
PROJECTION OF EXPENDITURES BY FISCAL YEAR
(US $ 000)

Fiscal Year	AID**	Host Country	Other(s)+	Total
Inflation factor				
Contingency				
Total				

** Under AID, separately list in columns loans & grants; in all cases have a column showing Total AID.

+ May be used for other assistance; e.g., HG, P.L. 480 Title II, etc., furnished by the United States outside of AID-appropriated funds. Where other donors are involved, a separate column should be added for each significant donor.

APPENDIX 3C

TECHNICAL ANALYSIS

(RESERVED)

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APPENDIX 3D
GUIDELINES FOR FINANCIAL ANALYSIS

1.0 INTRODUCTION

1.1 Purposes of Financial Analysis

Financial analysis is one of the six major types of project analyses summarized in Section 3C, Chapter 3 of this Handbook. It is used both as a tool during project development and as a test of a completed project design. Its principal purposes are: to determine the adequacy of the funds to be provided for financing all project inputs; to ascertain whether monetary benefits to be derived from the project are larger or smaller than the project's costs; to judge whether outputs would be produced at the lowest practical cost and whether the unit cost of outputs is reasonable; and whether the proposed cash flow is likely to make the project financially viable during the projected operating period.

1.2 Relationship to Other Types of Analysis

Financial analysis is interrelated with many other aspects of project development and analysis as follows:

(a) Economic Analysis: The data used in economic analysis are similar to those used in financial analysis. In many projects, the results of the financial analysis will provide some of the basic information required to undertake the economic analysis. Financial analysis concerns itself with the project as a self-contained entity, accepting the monetized values of outputs and inputs as given. Economic analysis, however, considers the broader effects of the project on the national economy in which outputs and inputs are valued to reflect scarcity and market distortions (see Ch. 2, Sect. 5, "Financial Versus Economic Analysis," A.I.D. Manual for Project Economic Analysis, 1987 and Appendix 3E, Ch. 3, Handbook 3, for a full explanation of the difference).

(b) Social Analysis: Social soundness analysis is concerned with the social and cultural setting of a project and its social effects. If the results of financial analysis (e.g., the level of rates to be charged for water or power, or for inputs such as credit for fertilizer), are judged to be incompatible with social objectives or cultural traditions, the project design may have to be modified.

(c) Administrative Analysis: Some aspects of the administrative analysis, e.g., those of the Executing Agency's financial administration (system of accounting, trained financial personnel, audit practices, etc.), are relevant for the interpretation of data used in financial analysis.

(d) Environmental Analysis: Environmental considerations can affect the design and costs of a project and thus the results of financial analysis.

(e) Technical Analysis: Technical factors (choice of site, construction materials or size of buildings) affect investment, and often operating costs (e.g., frequency of maintenance, numbers of required operating personnel) and, therefore, the results of financial analysis.

1.3 Timing of Financial Analysis

All types of analyses are interrelated. Financial analysis cannot be viewed as a self-contained effort, isolated from other types of project analyses. Nor is financial analysis a one-time task carried out after the completion of project design. Rather, financial analysis must continue throughout project development and implementation. As an essential part of developing viable and effective projects, financial analysis must become an integral part of the project design and must not be a mere formality undertaken after the completion of project design.

1.4 Preparatory Steps to Undertaking Financial Analysis

There are several basic questions that need to be asked prior to undertaking the project financial analysis:

(a) What type of financial analysis is appropriate?

(b) Is the relevant financial information available? If not, what should be the next steps in project preparation and development?

(c) Does the direct hire A.I.D. staff have the professional skills and sufficient time to carry out the assignment? Will external assistance be necessary to perform the financial analysis?

These questions should be asked and answered at the PID stage. To a considerable extent, the answers to one question will affect the answers to another. The more complex and specialized the financial analysis, the more likely there will be a requirement for external assistance. Similarly, the simpler the nature of the financial analysis, the more likely that the relevant financial information will be available and that the analysis can be performed without external assistance.

If the basic financial information is not available, then clearly the necessary financial analysis cannot be performed and the project should not proceed until adequate financial information is available. If available financial information is incomplete and of poor quality, but the mission needs to go forward with the project development, the design team should include, as a component of project outputs, the early establishment and satisfactory operation of the required financial reporting system.

1.5 Purpose of this Appendix

This Appendix is not intended as a course in financial analysis or a "how-to-do-it" manual describing in detail the data, methods and procedures used in financial analysis. Rather, it is intended to serve: (a) as guidance in determining the type of analysis required for a project, i.e., the scope of the analytical effort; and (b) as an overview of analytical methods commonly used.

2.0 CHARACTERISTICS OF PROJECTS RELEVANT FOR FINANCIAL ANALYSIS

2.1 General

All projects are subject to some form of financial analysis. The traditional project classification, e.g., classification by public and private ownership, by economic sectors, or by revenue and non-revenue producing, is only partially relevant for specifying the scope and type of financial analysis that should be adopted. The major criterion adopted in these guidelines as to the scope and methods of financial anlysis is whether a project is or is not "commercially operated" as defined below. Although this is not a perfect classification, it is useful for the present purposes.

There will also be differences between the financial analysis for new entities (grass-root projects) and expansion of existing operations. For a commercially operated new project, the financial internal rate of return (FIRR) or net present value (NPV) criterion, as discussed in Section 5.2 below, provides the basis for the financial decision to accept or reject the project. For an expansion project, however, the financial analysis should be performed in two steps. First, the worth of the additional investment and related costs and benefits needs to be appraised. Second, the worth of the total enterprise or activities including the additional investment should be analyzed and assessed. It is possible to generate an exceedingly high FIRR in an incremental analysis and, yet, the total activity remains financially unviable (for a more detailed explanation of the incremental approach, see Ch. 2, Sect. 4.4, "Applying With/Without to Obtain Incremental Net Benefits," A.I.D. Manual for Project Economic Analysis, 1987).

2.2 Non-Commercially Operated Projects

(a) All projects which do not produce sufficient revenues to be financially self-sustaining rely on external support for all or part of their expenditures. They can be described as "non-commercially operated" or "non-self-sustaining" projects or as "externally supported" projects.

(b) The external support needed to cover either capital or operating costs or both are usually provided by the government from its budgeted resources and in some cases by international organizations, bilateral donors or private voluntary agencies.

(c) Whatever proportion external support represents of investment and operating expenditures, the need for external support indicates that the "worth" of a project can not be measured by the user charges or other financial revenues it generates and collects. Rather, its "worth" lies in benefits it creates for the society as a whole; such public benefits, rather than financial worth, are the justification of the project. Most externally supported projects are "social infrastructure" projects in the health, education and family planning sectors. Also included in this category are projects in the transportation and communications sectors which may produce substantial revenues, but which are not designed to be self-sustaining, such as government-owned, or privately owned and government-subsidized, railways or bus companies. The financial analysis appropriate to each of these non-commercially operated projects is substantially different from that used for commercially operated projects (see Section 4.0 below).

2.3 Commercially Operated Projects

Commercially operated projects are those which expect to generate sufficient revenues to cover all necessary capital and operating costs and to generate a profit, i.e.,

-- production costs, i.e., the recurring expenditures for personnel, raw materials, fuel and power, maintenance of equipment, spare parts, etc.;

-- amortization of intangible investment expenses, such as for engineering and other studies, and the depreciation of fixed assets, i.e., buildings and production equipment;

-- debt service, i.e., the payment of interest on and the repayment of principal of loans used to finance the investment; and

-- generation of a profit.

The profit permits (a) compensating investors for the use of their money and the risks incurred in making their investment and (b) accumulating reserves for future use (e.g., as a cushion in case of adverse business conditions or for expansion of the enterprise, if so desired).

Occasionally, some government-owned projects or entities (e.g., some power companies) are expected to generate sufficient revenues to cover all of the costs enumerated above but not to produce a profit, i.e., to "break even." Such projects are, for purposes of financial analysis, included in the category of commercially operated projects because many of the analytical methods used for those projects can also be applied to "break-even" projects. Since commercially operated projects rely for their operations entirely on the revenues they generate, they can also be described as "self-sustaining" projects.

3.0 SOME ANALYTICAL CONCEPTS

3.1 Budget

(a) Several distinctions have to be made in using the term "budget." One type of budget is what is normally called the "project budget." It shows the amounts to be provided by A.I.D., the government and, in some cases, other donors for individual project components or "line items," spread over the number of years during which A.I.D. proposes to contribute funds, e.g., "the life of the project" (see 3B5 of Ch. 3, Handbook 3). Most projects, however, are expected to continue for a longer or an indefinite period beyond that "project life," using funds provided from either revenues generated by the project, government funds or both. A budget projection for one or more years of the period following the completion of the project as defined by A.I.D. is necessary to systematize an analysis of the financial situation as it will then exist, i.e., the costs that will have to be financed and the sources of the funds available for financing them.

(b) Another distinction is the difference between an "investment budget" and an "operating budget." The investment budget covers the cost of project facilities which must be in place before the project activities can begin, such as, construction of buildings, purchase and installation of equipment, purchase of supplies needed for initial operations and any of the services needed in connection with this category of expenditures. The value of these inputs represents the capital investment necessary to make operation of the project possible.

The operating budget covers those costs which will be incurred in connection with the activities to be carried out, e.g., production of goods, energy and power generation, teaching, operation of clinics, etc. A detailed annual operating budget is needed to provide sufficient funds for the continuing cost of the operation, i.e., the "recurrent costs." Included in the operating budget are, inter alia, salaries, supplies, maintenance of building and equipment, fuel and the periodic replacement of worn-out equipment, notably vehicles.

(c) The budgeting process thus includes the preparation of (1) a capital (investment) budget if applicable; (2) an operating budget for the number of years necessary to show when annual expenditures in constant terms will reach a stable level; and (3) a cash flow budget showing different sources of funds, such as, its own revenues, A.I.D. resources, the government budget and others to cover the capital and operating costs. The latter budget is, in effect, a tabular presentation of the financial plan.

3.2 Financial Costs and Benefits

(a) "Financial costs" are all expenditures that have been or will be incurred and paid by the implementing agency in the course of executing a project. They include investment costs and the operating costs, as defined above. However, social costs, such as environmental degradation which may be attributable to the project, are not financial costs to the project unless the project itself expends financial resources to cover these costs.

(b) "Benefits" of a project may take the form of revenues received (sales, fees, etc.) and/or intangibles (better education or health; improved access to markets, etc.) Whether intangible benefits can be expressed in monetary terms or not, they are not considered as financial benefits of the project. Therefore, the "worth" of any projects with large intangible benefits can not be based on the analysis of financial costs and benefits, because without accounting for intangible benefits the financial worth is likely to be negative.

(c) Contributions made by government, whether one time or recurrent payments under budget allocations, or grants by foreign institutions are considered as revenues of the project even though they are not generated by the project.

(d) The essence of financial analysis is the comparison of financial costs and monetary benefits. That comparison is used as the basis for a judgment on the "financial worth" of the projects, i.e., whether the benefits justify the costs. If the monetary benefits, i.e., project generated revenues have a lower value than the financial costs, a project is not financially viable, but may still be considered justified if it produces social or economic benefits that are judged sufficient to compensate for the costs. Although that judgment is beyond the scope of financial analysis, some analytical techniques based on least cost calculations discussed in Section 4 below are applicable (also see Ch. 2, "Principles of Project Economic Analysis," A.I.D. Manual for Project Economic Analysis, 1987).

(e) Since all costs and benefits generally accrue over time in different magnitudes, appropriate discounting is needed to reduce the future stream of costs and benefits to a common denominator, the present value equivalent. The calculation is simply the inverse of compounding interest. Rather than calculating how much an investment will be worth in a certain number of years if the interest is added each year to the principal, discounting starts with the future value and arrives at the present value by applying the discount factor successively (for a more detailed explanation, see Ch. 2, Sections 9.1, "Discount Rate," and 10.2, "Discounted Measures," A.I.D. Manual for Project Economic Analysis, 1987). Laborious calculations by hand can be avoided by using calculators or computers that are capable of or are programmed to facilitate this computation.

3.3 Data Used in Financial Analysis

The major sources of data used in financial analysis are estimates of costs and revenues, *pro forma* financial statements and the financial plan.

3.3.1 Revenue Estimates

In analyzing future operations of an entity, revenue estimates are necessary in addition to estimates of the cost of operations. Two factors -- the number of units of outputs sold and the price likely to be obtained per unit -- must be assessed for determining the volume of revenues. In most cases, both factors are examined in a market study prepared before the detailed project design is initiated. With regard to prices, "high" "low" and "probable" levels are usually determined as one of the variables to be considered in sensitivity tests. (See paragraph 5.2.7 on that subject.) In projecting revenues, not only the probable sales price and ultimate plant capacity must be

considered, but also the build-up of production from plant start-up to full production. New operations usually require the correction of flaws in equipment or operating practices and the training on the job of operating personnel, a process often described as the "learning curve." Reasonable estimates must, therefore, be made of the time needed before both personnel and equipment function at the expected ultimate level of efficiency. Depending on the complexity of the operation, several years may be required before output at full capacity can be achieved. Such gradual increase in saleable outputs must be reflected in revenue estimates.

The preparation of revenue estimates will in many cases be more difficult for non-commercially operated projects because revenues will often not be based on market prices but on administrative decisions by the implementing agency. Fees to be charged for medical services, for example, will rarely be adequate to cover costs. The level of such fees will rather depend on a judgment of an amount which the users can afford to pay, but which will not deter potential users to take advantage of the services. In such cases, the preliminary results of an analysis based on a tentative scale of fees will usually have to be reviewed during project development and one or more analyses performed based on different assumptions.

3.3.2 Cost Estimates

(a) In the analysis of any project, detailed and reliable cost estimates are the key sources of financial data. For commercially operated projects, the data are used in the preparation of pro forma financial statements (Income Statement, Balance Sheet, and Sources and Uses of Funds Statement); in non-commercially operated projects, they provide important information for alternative designs and cash flow projections. Cost estimates are discussed in Appendix 3B, Handbook 3. Only a few aspects of cost estimating are, therefore, discussed here to highlight its importance for financial analysis.

(b) Frequently, the term "cost estimates" is related only to capital expenditures, i.e., to the cost of plant and equipment needed to implement a project. However, operating expenses such as labor, selling and administrative expenses should be included. In addition, the cost of expendable supplies, such as raw materials, spare parts, energy and power, and maintenance supplies must be estimated to provide a basis for projecting the recurrent cost, i.e., the cost of operations.

(c) Physical and inflation contingencies should be estimated separately. This is necessary to assess the effect of cost overruns on the viability of a project due to underestimating quantities of work units, labor or material inputs, to examining the effect of different inflation rates on construction costs, or to eliminating the effect of inflation for some analytical purposes (e.g., when "constant" prices are used in calculating the financial rate of return). Any cost estimate should, therefore, include separate amounts for physical contingencies and price escalation, based on considerations which should be explained in the Project Paper.

(d) In the analysis of commercially operated projects, it is often assumed that inflation will affect the sales prices, i.e., revenues, to the same degree that it affects input prices (e.g., labor and materials), i.e., operating costs. If, however, revenues and costs are likely to change at different rates, "current" price data reflecting different price escalation rates are used on each major component of revenues and costs.

(e) To complete the cost estimates, two expenditure items, working capital and interest payment during the construction period, must be considered:

(1) Sufficient funds must be made available to permit the entity to meet its payroll and other administrative expenses during the construction period and to cover any gap in the timing of expenditures and receipts of revenues during the operating period, i.e., the time between the payment for raw materials and services and the receipts of the sales of goods and services. Such funds are known as "working capital."

(2) Even though the terms of long-term loans usually include a "grace period", i.e., a certain number of years during which no payments of principal have to be made, the borrowing entity normally has to pay interest (and where applicable commitment fees) during the construction period, when a newly created entity does not yet generate revenues. One way to offset such current payments is to "capitalize" interest during a certain limited period, i.e, to add the amounts due as interest to the principal of the loan.

3.3.3 Financial Statements

(a) Financial statements reflect either past performance of an enterprise or projections of future performance. In the latter case they are characterized as "pro forma" statements. If a project is

carried out by an existing enterprise, its performance during the immediate past, usually the last three years, is a good source of information on costs, capital structure, management efficiency and other data used in the analysis. Statements obtained should have been audited and be accompanied by the external auditors' opinion. For corporations, the statements, together with notes and the auditors' commments, are usually provided in Annual Reports to stockholders. Pro forma statements must in most cases be prepared by a financial analyst who uses cost and revenue estimates and the proposed capitalization as well as historical financial statements, if any, as the basis of projections.

If there is any reason to question the reliability of historical financial statements, e.g., because the auditors' certification raises doubts, competent independent accountants should be asked to review the entity's books.

(b) As commonly referred to, "Financial Statements" include three sets of figures reflecting, respectively, the profitability, the liquidity and the "financial position" of the enterprise, as discussed below.

(1) The Income Statement (also referred to as "Statement of Earnings" or "Profit and Loss Statement") shows a listing by category of revenues received and expenditures made during the reporting period. (In Annual Reports, the corresponding figures for one or more years preceding the reporting period are usually shown for comparison purposes.) In addition to expenditures, non-cash charges to income, such as depreciation, amortization, deferred taxes, are also shown. The excess (or shortfall) of revenues over expenditures including non-cash charges is the profit (or loss). The Income Statement thus indicates the profitability of the entity's operations.

(2) The Balance Sheet (or "Statement of Financial Position") shows the entity's assets and liabilities. Assets are sometimes divided into "current," "fixed" and "other" assets. Current assets are those which are cash or are expected to be converted to cash within one year. Fixed assets include land, buildings and equipment with a service life exceeding one year; the sum of "annual charges" for fixed assets that are used up over a longer period of time, are shown in the balance sheet as a separate entry headed "accumulated depreciation" and deducted from the original value of the assets. (Note: land is not depreciated.) The cost of other long-term assets, such as research and development costs or the cost of outside engineering services, that may be classified as "other" assets are usually "amortized" rather than "depreciated". The total of annual amortization charges is shown

separately or reflected in the balance sheet. Liabilities, similarly, are divided into current and long-term -- current liabilities being those which are expected to be disbursed within one year. Added to liabilities is the stockholders equity, which includes the value of the stock and retained earnings, i.e., profits not distributed to stockholders in the form of dividends. The total of liabilities and equity equals the total of assets, so that the two sides of the statement are always "in balance"; hence the term "balance sheet."

(3) The third type of statement is the "Statement of Sources and Uses of Funds" or "Changes in Condition". Data from both the Income Statement and the Balance Sheet are used to construct the Sources and Uses of Funds Statement. The Statement shows where the funds come from and for what purposes they were used. Non-cash items are disregarded in the Statement. The major categories of Sources of Funds are the entity's operations (internally generated funds) and external financing, such as loans. "Uses of funds" do not include funds used for operations (because they have already been accounted for by using net income as a source of funds). Uses of funds may include increases in Working Capital (current assets less current liabilities), investments in plant and equipment, outside investments, dividends paid to stockholders, debt services, etc.

3.3.4 Financial Plan

Financial planning is described in Section B of Appendix 3B, Handbook 3. A financial plan is needed not only for negotiations with the Borrower/Grantee (B/G) and possibly other donors on the amount and timing of contributions to the project by all parties involved, but also to analyze the adequacy of proposed arrangements for the timely execution of the project and for the projection of the cash flow during the implementation period. The financial plan has implications for the cash flow during the construction of the project and for the profitability and the cash flow, in particular the adequacy of cash flow for debt service, during the operating period. These implications must be examined throughout the project development phase. If this is not done, implementation may be delayed or debt service and other problems may arise in the operating period.

4.0 ANALYSIS OF NON-COMMERCIALLY OPERATED PROJECTS

4.1 Scope of Analysis

Many A.I.D. projects are aimed at and designed for improving socio-economic infrastructure of the country. Projects in education, health, family planning and even in agriculture (e.g. research and

extension) often do not generate any revenues or, if any, insufficient revenues to cover the costs of the projects. Financial justification of such projects in the traditional financial internal rate of return (FIRR) terms is not possible and is unnecessary. The role of the financial analyst, however, is to demonstrate that the selected project will achieve the stated objectives at the least cost possible and to determine whether sufficient resources will be made available to cover its costs in a timely manner.

For non-commercially operated projects, cost effectiveness and recurrent cost analyses can be utilized to demonstrate efficiency of a project design. The former analyzes the cost structure of the project, while the latter examines whether or not adequate funds will be made available at the time they are needed.

4.2 Cost Effectiveness Analysis

(a) Cost-effectiveness analysis (CEA) is an approach to project appraisal in which project benefits or costs are identified, but only the costs are monetized. Unlike the procedures used in the traditional cost-benefit analysis, no attempt is made to place a monetary estimate on project benefits, because project benefits are difficult or impossible to quantify (e.g., improved aesthetic conditions from a program for the preservation of national parks or changes in lifetime earnings from an educational development project) or difficult to express in monetary terms (e.g., health effects from a primary health care project or a potable water supply project, improved air quality from a pollution control project, or changes in quality of life from a rural electrification project).

(b) CEA is particularly useful where benefits are hard to quantify or value due to lack of data or insufficient knowledge about cause and effect relationships. Many A.I.D. projects that deal with human resource development in the health, education, or family planning areas may be evaluated by means of CEA.

CEA can take three basic approaches:

-- minimizing costs for a given level of effectiveness (a form of least-cost analysis);

-- maximizing effectiveness for a given level of cost; and

-- finding the best trade-off between costs and effectiveness.

(c) The first approach requires that the project design team first establish the goal of the project and then examine different means of achieving that goal. It may be a social goal (increased average number of years of schooling for children), a health goal (reduced infant mortality rate), or an environmental goal (reduction of water or air pollution by a certain amount).

(d) The second approach assumes that a predetermined level of funding is available in a certain area (e.g., child health care); the analyst then examines the consequences of alternative ways of using the money. In the case of child health care these could include supplementary feeding, oral rehydration programs, training of nurses or expanded maternal and child health (MCH) facilities. The analysis then estimates the effectiveness of each alternative in improving child health care, evaluated by some measures such as the infant mortality rate or weight by height.

(e) The third approach combines elements of the first two. The analyst considers a number of goals, examines the differences in the cost of achieving them, and then decides which goal seems most reasonable considering the costs involved. The simplest and most common technique used is to compute the average cost per unit of outputs for various design options, e.g., costs per student or per course taught in an education project, or costs per consultation or innoculation in a health project. An unacceptably high unit cost may indicate the need to redesign the project or, if that is not possible, to abandon it. It is important in this context to select outputs directly related to the objectives of a project. Thus, in an education project aimed at improving instruction methods, the number of students passing an exam is likely to be a better output measure than the number of courses taken or the number of hours of instruction given.

(f) Calculation of the unit cost of an output is simple. The total annual cost is the sum of annualized investment costs (i.e., the investment cost divided by the number of years the assets are expected to be in service) and the annual operating cost. This total is then divided by the number of units of output expected to be produced in a year (for a more detailed exposition, see the Annex, "Cost Effectiveness Analysis," A.I.D. Manual for Project Economic Analysis, 1987). The average cost per unit methodology assumes that the average cost of various alternatives under comparison is distributed equally over time. However, if it is distributed unequally over time, the stream of the average cost per unit must be discounted to present value using the actual cost-of-capital rate.

4.3 Recurrent Cost Analysis

(a) Recurrent costs are defined as the operating expenditures needed to carry out the project activities. They include wage and salary payments, utility costs, raw material purchases, maintenance and repair expenses, replacement costs of worn-out equipment, debt service payments, etc. The financial analyst must examine carefully whether or not sufficient funds are made available at the time when they are needed to cover necessary recurrent costs, not only for the life of the project during which A.I.D. provides assistance, but also for later years, say 5 years, after A.I.D.'s contributions are terminated, provided that the project activities will be financed by some other agent, such as the government (a good discussion on recurrent costs can be found in A.I.D. Policy Paper on Recurrent Costs, May 1982).

(b) The financial analyst should prepare:

-- the annual budget containing estimates of all operating expenditures and sources of funds to cover these costs, and

-- an analysis examining the past recurrent cost performance of the government (or any other agency that is responsible for financing the future operation of the project) in meeting its financial obligations and examining the projection of recurrent costs likely to occur in later project years. The recurrent cost performance analysis should concentrate on the government budget for the sector in which the project is being designed and evaluate the government's ability to allocate additional financial resources to the sector and the project when A.I.D. terminates its financial contributions.

(c) If the annual budget and recurrent cost analyses indicate the existence of potential problems in meeting operating expenses, the financial analyst should prepare some or all of the following analyses to justify undertaking the project:

-- modify the project design by establishing or increasing user fees and other revenue generating measures to reduce needed external support;

-- analyze the potential project impact on government revenues and expenditures. For example, development of a new strain of crop as a result of the project may increase crop yields which in turn may increase government revenues through income, transaction, and export taxes. The increased net government revenue may justify the projected level of government support;

-- analyze the potential or the likelihood of other donors to provide resources to the project or indirectly to the government for the purpose of carrying out the project;

-- provide strong justification for A.I.D. to continue to support the project with its local currency, if available, even after the completion of the project;

-- analyze the causes of persistent recurrent cost problems and incorporate appropriate policy measures to address the problem; and

-- seriously consider abandoning the project.

(d) Note that the annual budget must reflect likely increases in the cost of salaries and services as a result of inflation. If this is not done, the operating budget both for the initial project period and for subsequent years will likely prove unrealistic. In other words, budgets should be prepared in "current prices."

5.0 ANALYSIS OF COMMERCIALLY OPERATED PROJECTS

5.1 Objectives

The objectives of the financial analysis are to:

(a) Estimate the "worth" of the project in financial terms (financial internal rate of return);

(b) Assure that available financial resources are adequate to cover all investment and operating costs listed in paragraph 3.1, above;

(c) Assure that funds will be available in the amount and at the time required (cash flow analysis);

(d) Assure there will be adequate funds to service debt incurred for financing the project (debt service coverage);

(e) Assure that debt incurred and equity provided by public or private investors will be sufficient to overcome temporary adverse developments, e.g., increased costs or reduced revenues due to unfavorable market conditions (capital structure);

(f) assure that profits will be sufficient to allow equity investors an adequate financial return on their investment (return on equity); and

(g) Estimate the extent to which actual costs and resources can differ from the assumptions made without jeopardizing the viability of the project (sensitivity tests).

5.2 Methods of Analysis

5.2.1 General. The analysis of the data contained in the Financial Statements as defined above, cost and revenue estimates, and the financial plan includes tests of profitability, financial condition and adequacy of the cash flow. Many of these tests involve the calculation of certain ratios which must be interpreted on the basis of experience and informed judgment.

5.2.2 Financial Internal Rate of Return (FIRR) and Net Present Value (NPV)

(a) The most frequently used method of establishing a measure for a project's financial value is the calculation of the "Financial Internal Rate of Return" (FIRR). Calculating an FIRR involves ascertaining the discount rate on which the sum of all annual net cash flows, positive and negative, is zero. The technique usually involves several repetitive calculations for various discount rates until the FIRR is found at which the sum of the discounted cash flows is zero or close to zero. There are, however, computer programs and calculators which can be used to ascertain the FIRR in one operation. If the calculated FIRR is greater than a predetermined acceptable rate of return, the project would be financially worthwhile.

Difficulties arise, however, when the net cash flow alternates in sign (negative to positive to negative, etc.) more than once. This could result in more than one FIRR for the project. Also, FIRR will not exist if the net cash flow is either uniformly positive or negative.

(b) Alternatively, the net present value (NPV) of the cost and benefit streams can be calculated using a discount rate determined in advance to represent the actual cost of capital. If the value of the discounted annual net cash flow is greater than zero, the

project is financially acceptable. For commercially operated projects, the FIRR is the one favored by A.I.D. primarily because it is more readily understood by the entrepreneurial community (for a more detailed explanation, see Ch. 2, Section 10.2, "Discounted Measures," A.I.D. Manual for Project Economic Analysis, 1987).

5.2.3 Profitability

(a) Net profit is the excess of revenues over all costs, including production costs, several types of administrative (overhead) costs (e.g., sales and the catch-all category of costs called "General and Administrative" (G&A) expenses), import duties, taxes, the annualized cost of investments (depreciation and amortization) and interest on debt. Repayment of loan principal is not considered as a cost and not shown in the Income Statement. Since loans are used to finance capital (investment) costs, and since depreciation and amortization charges reflect the annualized cost of investment, considering principal repayments as a cost would be double-counting. Principal repayments are made out of net profits (after taxes) and reflected in the balance sheet as a reduction of debt and in the cash flow statements as a use of funds.

(b) The most useful measures of a project's profitability are the FIRR and NPV, described in paragraph 5.2.2, because (1) they take into account the time when expenses are paid and revenues received, and (2) they encompass an extended period of time, reflecting the efficiency of operations beyond the annual profit and loss statements.

(c) In addition, several ratios can be calculated as indicators of the overall efficiency with which funds are used. The two most significant measures of efficiency are the ratio of

-- annual net profit to sales;

-- annual net profit to total assets;

-- annual net profit to equity; and

-- annual net profit to capitalization.

To determine the significance of the ratios it is necessary to compare them for a reasonable period of time with those established for similar enterprises, using the analyst's experience and reference data. In such comparisons, local conditions must, however, be taken into account, such as exceptionally high labor costs or unusually high investment expenses due to, e.g., the necessity to construct housing for employees.

5.2.4 Liquidity

(a) The objective of liquidity analyses is to ascertain whether all the expenses expected to be incurred in one year are covered by receipts with a sufficient margin to prevent unexpected cash flow problems.

(b) Several ratios are used to put the projected liquidity of a project in perspective. The current ratio, computed by dividing current assets by current liabilities (as shown on the balance sheet), is a measure of short-term liquidity since "current" means one year or less. Current assets consist principally of cash, marketable securities, accounts receivable and inventories. Current liabilities include such expenditures as taxes, repayment of short-term loans, accounts payable and installments of principal of long-term loans payable within one year. If the ratio is less than 1.0, assets are insufficient to cover liabilities. Only a ratio higher than 1.0 is, therefore, acceptable.

(c) A variation of the current ratio is the "quick" (or "acid test") ratio. In computing it, inventories (both of manufactured goods and of raw materials and other supplies) are deducted from current assets and the result divided by current liabilities. This is a more stringent test than the current ratio; it is based on the consideration that it may not be possible to liquidate inventories by sale quickly enough or to obtain prices equal to or near book value. Generally, the quick ratio is expected to be at least 1.0 but a ratio slightly less than 1.0 is sometimes acceptable, e.g., if there is normally a ready market for all or most of the inventories.

(d) For all projects financed in part with loans for which the project is primarily responsible, the "debt service coverage" is usually computed to ensure that the terms of loans are compatible with the expected cash flow. The debt service coverage ratio is computed by dividing the amount of "sources of funds" or "funds available" as shown in the cash flow statement, by the debt service requirement in that year. ("Debt Service" includes both interest and principal payments calculated on the basis of specific loan terms.) Thus, the computation of the debt service ratio does not take into account possible cumulative cash balances; rather, it reflects the relationship between cash inflows in one year and the corresponding debt service requirements. It is a matter of judgment whether an inadequate debt service coverage in one year can be accepted if cumulative balances, in addition to cash generation in that year, are available. The adequacy of the ratio must, in any event, be judged with

consideration of the size of cash outflows other than debt service. The higher such other outflows are relative to debt service, the higher an acceptable debt service coverage would have to be. A ratio of 1.5 is frequently used as a measure of adequate coverage.

5.2.5 Leverage

(a) "Leverage" is the effect of debt on the profitability of an equity investment. The use of debt financing makes the equity provided by the project's owners more effective. On the other hand, too much debt, or debt incurred at inappropriate terms, can endanger the financial viability of a project because debt service could require too high a proportion of the funds remaining after the payment of production expenses.

(b) Of the several ratios devised to measure the effect of debt on the financial stability of a project, the debt/equity ratio is the one commonly used by development financing institutions. It measures the relationship between debt and equity used in financing the investment. The ratio can be expressed in two ways: either by computing the percentage which debt and equity, respectively, constitute of the total investment; or by dividing the amount of debt by the amount of equity. Thus, if the amounts of debt and equity are equal, the relationship can be stated either as 50:50 or as 1.0. Dividing debts by equity is the preferred method. In computing the ratio, normally only long-term debt is considered (after deducting the current year debt payment); short-term loans (up to a term of one year) are commonly not considered in computing the ratio for development projects because they do not affect the long-term stability of the project. Any cash problem which they may cause in one year would be discovered by analyzing the cash flow.

(c) In some situations, it is advisable to consider short-term as well as long-term debt in computing the debt/equity ratio. This would be the case if a substantial part of the fixed assets or working capital is to be financed with overdrafts or other forms of short-term debt, as is customary in developing countries. Any tightening of such credit as the result of changes in a government monetary policies could make it difficult for an enterprise to roll over short-term loans and thus seriously endanger its liquidity situation.

(d) The debt service coverage ratio, discussed above as a measure of liquidity, can also be used to assess the merits of the proposed leverage. If a satisfactory ratio is achieved, the leverage is not too high; if the ratio is lower than considered safe for the stability of the enterprise, the amount of debt to be incurred is too high or the loan terms are too onerous.

5.2.6 Other Ratios

A number of other ratios have been developed to analyze the financial performance of a project; they are sometimes collectively referred to as "activity ratios." These ratios are generally less significant for the analysis of development projects because they cannot be interpreted without referring to industry standards valid for the country in which the project is located. Among such ratios are those measuring "inventory turnover" (annual sales divided by average inventory). For projects expected to sell on credit, the "average collection period" may, however, be significant if historical data exist that permit a comparison of the actual experience with the terms under which sales are made. The period is computed by determining average daily sales (annual sales divided by 365) and then dividing accounts receivables by daily sales. The result represents the number of days needed on the average to realize cash after a sale is made.

5.2.7 Sensitivity Tests

(a) General. Even though cost estimates include allowances for contingencies, and even though revenue estimates should be based on detailed market studies, sufficient uncertainties exist in most, if not all, projections or estimates to warrant an examination of the effects of changes in some of the estimates and assumptions on the profitability and financial stability of the project. Such examinations are termed "sensitivity tests." The factors chosen for examination are those which would have a major impact on the financial projections, such as construction and operating costs, sales prices, total production, and the length of the construction period. Additional factors that might be considered include those which are of sufficient importance to warrant special scrutiny, such as the rate of build-up of production to design capacity or fluctuations in transportation costs for bulk commodities. If any of these tests show that the potential impact of changes in estimates or assumptions is such that the project may not be financially viable if such changes actually occurred, it would be necessary to estimate the probability that a given change will occur. Such assessment of probabilities is called "risk analysis"; the methodology used is not described in this Appendix. (See Ch. 2, Section 11, "Sensitivity Analysis," and Section 12, "Risk Analysis," A.I.D. Manual for Project Economic Analysis, 1987).

(b) Methodology. To test the sensitivity of a project to changes in a given factor, different values of the factor are substituted in the original analysis. For example, the unit sales price for the project's product used in calculating the amount of revenues

shown in the pro forma Income Statement is increased and decreased by 5%, 10% and 20%. The corresponding revenue figures are then inserted in the Income Statement, and the IRR computed. It is obviously a laborious procedure to make repeated calculations by hand, but if a computer program is available, a great number of such changes can be computed and new statements printed out in short order. The same procedure can be applied to any other factor in financial performance which is to be tested.

6.0 INTERMEDIATE CREDIT INSTITUTIONS

6.1 Focus of Analysis

The financial analysis of intermediate credit institutions (ICI's), general and specialized development banks as well as commercial banks which have similar lending programs, is concerned with the analysis of the institution's financial operations rather than with the projects which they finance.

6.2 The Policy Statement

(a) It is customary that the Board of Directors of a development bank adopts a policy statement before or shortly after the bank begins making loans. Policy statements usually describe the bank's policies regarding the maturity of loans (short-, medium- or long-term or a combination), the sectors to which loans are to be made, the interest rates to be charged the bank's customers, loan approval procedures, delegations of authority from the Board to the bank's officers, collection procedures, reserves for bad debts to be established, audit procedures and similar policies making up the framework within which the bank expects to operate. The examination of the Policy Statement is thus a good way to start the assessment of a bank's operations, the adequacy of its organization and of its administrative practices.

(b) If the ICI policy permits insider loans, i.e., loans to its owners, directors and officers, A.I.D. may require that the ICI demonstrate that these loans are as efficient a use of resources as other loans under consideration. If, however, loans to insiders hinder credit from reaching A.I.D. target groups, A.I.D. may prohibit such loans as a condition of the Agency's participation in the credit program.

6.3 Interest Rate Spread

The difference between the interest rate paid on borrowings and that charged to its customers (the "spread") is the most significant source of the revenues earned by an ICI. The spread must be large

enough to cover the bank's administrative costs, permit the accumulation of reserves for bad (i.e., uncollectible) debts and other purposes and, if the bank is privately owned, to provide a return on the investment made by its stockholders. There are no absolute rules governing the size of the spread that may be necessary to prevent operating losses and the consequent depletion of equity. The spread may have to be larger if the bank experiences a large number of defaults by its borrowers. In any event, the adequacy of the spread should be judged primarily in the context of the bank's past performance as reflected in its Income Statements.

6.4 Loss Experience

The "loss experience" is the bank's history of uncollectible loans on which borrowers have defaulted with respect to payment of interest and principal in accordance with the terms of the underlying loan agreements, and which have to be written off (i.e., cancelled without payment) because there is little or no prospect that payment will be resumed. Sometimes banks are reluctant to write off loans to avoid the consequences for their financial statements. Under their own policies, and often as required under agreements with its lenders, banks maintain records showing the "aging" of its borrowers' overdue payments. Overdue payments are usually classified as overdue for intervals of 30 days (30, 60 days, etc.) and such statements indicate the default rate (the ratio of default against outstanding loans) for any such periods. If a relatively large number of loans are overdue for longer periods, it shows the need for a study of the causes of the delinquencies, of which there may be several. Among them are lax loan approval practices including lack or inadequacy of credit checks or projects analysis, inadequate collection procedures including failure to take legal action and the deterioration of economic conditions generally or in individual sectors of the economy. Such studies form the basis of whatever action the bank may be able to take to counteract the cause or causes of defaults.

6.5 Cash Flow

Cash flow statements for previous years and cash flow projections for future years show the inflow of funds from collections (interest payments and repayments of principal) and from borrowings by the ICI and the outflow of funds for loan disbursements and administrative expenses. Projected cash flow statements are the principal basis for assessing the need for additional borrowings (or sometimes increases in equity funds.) They are based on historical data, reflecting disbursement and collection rates, modified as indicated by changes in the demand for loans due to changes in the general economy or in particular sectors, by changes in the lending policies or other developments.

6.6 Debt/Equity Ratio

ICIs have a higher debt/equity ratio, i.e., a higher proportion of debt, than industrial or commercial enterprises. Ratios of 20:1 or higher are not unusual. These are typical ratios for commercial banks that depend on deposits as sources of funds. Nevertheless, a solid equity basis is needed as a cushion against adverse developments.

6.7 Other Ratios

There are a considerable number of ratios used by financial analysts in the assessment of ICI operations. Among these are the ratios of assets to deposits (if any), loss reserve to loans, net income to total assets, etc. Such ratios are meaningful only by comparison with those achieved by comparable institutions; their interpretation is, therefore, best left to analysts familiar with ICI operations.

6.8 Foreign Exchange Risk

(a) Since the rates at which different currencies are exchanged vary, sometimes substantially, there is the risk that different rates may apply at the time loans in foreign exchange are disbursed and the time they are repaid. This is called the "foreign exchange risk."

(b) While that situation exists in all international lending, it raises questions of equity and policy in lending to ICIs. Either the government (if the loan is made to a government and relent to an ICI), the ICI or its sub-borrowers can be assigned the foreign exchange risk and thus be responsible for the maintenance of value of the foreign exchange disbursed. In the past, the arrangements made in loan and re-loan agreements have differed. Sometimes it has been argued that governments should bear the foreign exchange risk because they, at least to some extent, can control or affect exchange rates, as e.g., by devaluing or revaluing their own currency. In other cases, the argument was accepted that the sub-borrowers, as the actual beneficiaries of loans, should bear the foreign exchange risk. Finally, in certain situations it can be argued that wide currency fluctuations might increase the sub-borrowers' debt service obligations to a point where they would constitute a serious threat to the sub-borrowers' economic survival or where the risk might act as a deterrent to borrowing. In such cases assignment of the foreign exchange risk to the ICI might be considered. If that were to be done, prudence would dictate that the ICI establish a reserve for currency fluctuations to which a portion of interest income is assigned. Interest rates charged by the ICI would have to be increased to permit the establishment of such a reserve. The additional interest would be justified as a payment to the ICI in return

for its assuming the foreign exchange risk. In practice, the situation in each ICI loan must be considered on its merits, taking into account foreseeable changes in exchange rates, the likelihood of a devaluation of the local currency, the financial stability of the customers expected to borrow from the ICI, the financial strength of the ICI and the experience of its management. The project design team should scrutinize carefully alternative means of sharing the foreign exchange risk.

7.0 FINANCIAL COVENANTS

7.1 Purpose and Effectiveness

(a) Financial covenants are used to establish standards for selected aspects of a borrower's financial operations. Legally, the breach of a covenant constitutes a default which entitles the lender to resort to any of the "remedies", i.e. sanctions, which are provided in the loan agreement. Such breaches of covenants are distinguished from other, more serious cases of default (e.g. the failure to pay interest or principal installments) as "technical" defaults. In most cases of technical defaults, however, the remedies available to A.I.D. (suspension of disbursements or cancellation of payments, as detailed in Article D of the Project Loan and Grant Standard Provisions Annexes) are too drastic to be invoked; if they were, the cure might well be worse than the disease, considering the development objectives which the A.I.D. loan or grant was to serve. Financial covenants, thus are intended primarily as a means for enforcing certain standards of financial management and establishing objectives which, when not attained, become the basis of a formal or informal review of the conditions causing the breach of a covenant and of actions that could be taken to improve those conditions. Financial covenants should, therefore, be seen as devices to trigger warning signals, not as devices which, of themselves, ensure adherence to specified standards.

(b) Financial covenants are based on projections of financial operations during and after implementation of a project. They reflect, therefore, both costs and benefits expected to result from the execution of a project. It is imperative that financial covenants are thoroughly negotiated with the borrower and implementing agency to make sure that their implications are fully understood.

7.2 Revenue Covenants

(a) Revenue covenants in one or several of the forms described below can be used to establish a standard for the generation of revenues for any project other than those which depend on subsidies for all of their income. They can thus be used for commercially operated projects and partially for non-commercially operated projects.

(b) Rate of Return Covenant. Under a rate of return covenant, an entity is required to do all that is necessary to earn an agreed return on the capital investment in addition to covering its operating expenses, including production expenses (i.e., all labor, supervision and materials needed to produce the output, which may be a commodity or a service), maintenance expenses and provision for depreciation, but excluding interest on debt. This, or the two covenants described in (c) and (d), below, are frequently used as a standard for the financial performance of utilities.

(c) Cash Generation. If revenue generation as a percentage of total income, including subsidies, can be established, a covenant can be agreed upon under which the entity undertakes to meet from revenues a certain proportion of specified expenses. The expenses can be defined as "production expenses" (see above) or, in addition to production expenses, any or all the following categories of expenses: maintenance, depreciation, debt service, taxes if applicable, and necessary annual capital expenditures. This covenant is thus so flexible that it can be adapted to any project that generates revenues.

(d) Operating Ratio. The "operating ratio" is the total of operating expenses stated as a percentage of revenues. Any percentage above 100 means that expenses exceed revenues; the lower the ratio, the better the performance of the project. This covenant is useful as an alternative to the cash generation covenant. It can be adapted to different projects by including in the covenant a narrower definition of operating expenses than that given in (b), above.

7.3 Capital Structure Covenants

(a) Covenants of this type are used to limit the amount of debt which a commercially operated project is allowed to incur. They are generally not applicable to non-commercially operated projects. The limits can be established directly, as described in (b) and (c), below, or indirectly as in (d), below.

(b) Debt/Equity Ratio. This covenant fixes the maximum debt allowed to be incurred by stipulating the ratio of debt to equity which must not be exceeded. (See paragraph 5.3.5 on computation of the ratio and on the definition of debt.)

(c) Debt Limitation. Under this covenant the debt which an entity is permitted to incur is limited by stating the maximum absolute amount of debt, with the proviso that incurring additional debt is subject to the prior approval of the lender.

(d) Debt Service Ratio. The debt service ratio discussed in paragraph 5.2.4(e), above, takes into account not only the amount but also the terms of debt incurred. It is, therefore, a good measure of the ability of an enterprise to incur additional debt. The ratio stipulated in a covenant is frequently 1.5 (i.e., "funds available" or "sources of funds" as shown in the Cash Flow Statement, equals one and one-half times the projected debt service).

7.4 Liquidity Covenants

(a) Current Ratio. The covenant establishes the minimum by which current assets must exceed current liabilities. (See paragraph 5.3.4(c), above.) The ratio used depends on the regularity or seasonality of revenues and the credit policy of an entity and thus on the amount of working capital required to finance inventories and receivables. The lower the working capital needs, the lower the ratio can be; less than 1.0 is, however, usually unacceptable.

(b) Quick Ratio Covenant. A covenant setting the standard for the quick ratio is sometimes preferable to a current ratio covenant because it uses a narrower definition of current assets. (See paragraph 5.2.4(c), above, for discussion.) If used, the ratio stipulated could be somewhat less than 1.0 because otherwise the required levels of assets in cash, or readily convertible into cash (e.g., bank accounts, marketable securities and receivables), may be unrealistically high.

7.5 Other Financial Covenants

Some financial covenants other than those discussed above are sometimes used. Among these are covenants which

-- limit the conditions under which dividends may be paid, usually by reference to the effect of dividend payments on the current or quick ratio;

-- limit additional capital investments by the entity beyond a stipulated annual amount by requiring the lender's approval of any investment exceeding that amount;

-- require the annual audit of the entity's accounts by an independent outside firm (commercially operated project and some non-commercially operated projects) or by a governmental audit agency (most non-commercially operated projects). An audit covenant should always be included in a loan or grant agreement.

APPENDIX 3E

ECONOMIC ANALYSIS OF PROJECTS

A. Introduction

1. The purpose of economic analysis is to determine whether a project is a worthwhile investment for the country, i.e., whether the outputs from a project are sufficiently valuable as to warrant the expenditure of scarce resources. Economic analysis also allows project designers to select the least-cost design from among alternative options, as well as to choose among different projects in the same sector or in different sectors. Economic analysis is an indispensible tool in the project identification and design process. Where outputs are easily evaluated in monetary terms, the economic analysis provides one measure by which to evaluate and compare projects. Where outputs are quantifiable but not easily reduced to monetary values, economic analysis allows the designer to determine the real resource cost per unit output which is indispensible in making judgments concerning a project's value. Where outputs are non-quantifiable, economic analysis enables choice between competing designs on a least-cost basis.

2. While AID does not have a rigid methodology for economic analysis, certain basic principles should be applied in all cases. In many instances the application of these principles will vary depending on the availability of data and the nature of the project. There are many detailed manuals of economic analysis which go beyond the general principles to be outlined here, and which can be used as resources for the analysis of specific activities. A partial list of these sources is presented at the end of this Appendix.

B. General Features of Any Economic Analysis

1. The general principle of economic analysis is to compare the real benefits of any given project with its real costs. The larger the discounted benefits for a given set of costs or the smaller the costs for any given set of benefits, the more worthwhile is the project. The

primary task of economic analysis is measuring the costs and benefits in terms of a common yardstick - (1) measuring the real value of any input or output; and (2) comparing inputs or outputs across time. The first difficulty underlies the distinction between "financial" and "economic" analysis, while the second necessitates the need for a time discounting factor.

2. Financial analysis compares the stream of nominal benefits from any project to the stream of nominal costs as determined by using (normally) local market prices. If the present value of benefits is substantially larger than the present value of the costs, then the project is profitable. A minimum degree of profitability in terms of an internal rate of return or net return on investment will usually be required. Financial analysis is used to measure "private profitability," i.e., whether or not a project is profitable from the point of view of the project owners or actors - farmers, private firms, public sector entities, etc. These actors face market prices, pay taxes, receive subsidies, etc. If the financial analysis results in an adequate financial return (i.e., exceeding what might be earned by an alternative use of resources), then it is likely that the actors will behave in ways projected by the project design (adopt new technologies, for example). If financial returns are small or negative, the project objectives are not likely to be achieved. Thus financial analysis is a necessary component of the design of any project in which financial viability is a consideration.

3. Economic analysis is similar to financial analysis except that in the place of (nominal) market prices one uses (real) "shadow prices" or "opportunity costs." In economic analysis the objective is to determine the social profitability of a project, i.e., whether spending scarce resources in this particular way is sensible for the society as a whole. In a world of government involvement in the economy, labor unions, monopoly and restrained international movement of actors and products, (nominal) market prices often do not reflect real resource costs. In addition, private decision-makers do not take into account benefits received or costs incurred by others. Since the actual situation often does not reflect such an ideal, the prices of inputs and outputs have to be adjusted prices. Other modifications are necessary to financial data and are briefly noted below.

4. For example, the price of labor (the market wage) often overstates the real cost to the economy of using labor, since wages are artificially high. The existence of unemployment or underemployment is prima facia evidence that the opportunity cost of unskilled labor is lower than the market price. In other words, using local labor in this project at the prevailing wage overstates the output foregone by society which this labor could produce in alternative uses. The "shadow price" is the wage rate that would reduce unemployment to that voluntary level necessary for labor mobility. Extreme care is required in deriving shadow wage rates since seasonal, geographic and labor classification problems may be more relevant than national rates of unemployment.

5. The shadow price of foreign exchange is often higher than the market price given by the official exchange rate. Black markets in currency, exchange controls or high import tariffs, or restrictive quotas, are all indications of an overvalued exchange rate.

6. Real interest rates, expecially in times of high inflation are often lower than opportunity cost of capital because of government policy to encourage certain investment activities. Similarly, capital may be undervalued because capital goods are often imported at preferential exchange rates, without significant tariffs or other taxes. The problem is to estimate what discount rate represents the scarcity value of capital in the economy, or in other words, the opportunity cost of capital. Several of the references at the end of this Appendix include methods of estimating the opportunity cost of capital.

7. All economic values have to be netted from subsidies and taxes. These are financial costs or benefits, but not economic costs since they do not involve payments for the use of scarce resources. For example if the C.I.F. price of fertilizer bought from the U.S. is $150 a ton, but the fertilizer is sold to farmers for $100 a ton, the economy is still paying $150 for that fertilizer. The economic cost is $150. Tradable inputs should be valued at the F.O.B. price (at the shadow exchange rate).

8. Project costs are made up of both capital and recurrent costs, denominated in both foreign exchange and local currency costs. In addition, all host government contributions and other donor participation as well as any private sector costs, should be included. Any project analysis should include as costs all resources which could be used as productive inputs in another project or sector, including building, machinery, labor costs, etc. These costs should be calculated for the projected life of the project. Where capital (e.g., vehicles) are expected to wear out before the end of the project, replacement costs must also be included.

Investments made prior to the design of a given project should not be included as project costs. The general principle is that some costs are forgotten, except for those elements for which alternative uses are possible. Similarly, finance charges, which are already accounted for by the discounting procedure, and depreciation are not counted as costs in an economic analysis. On the other hand, indirect costs of a project need to be included. For example, a dam which causes the flooding of agricultural land has as a cost the loss in the value of that land. If physical capital has a salvage value after project completion, that value is treated as a benefit in the last year of the project.

9. Benefits are two kinds - measurable and immeasurable. In between are those items that cannot be measured with any confidence or precision. The primary dimension of benefits is the increase in income (or output) directly attributable to a project. Some benefits are not easily measurable and cannot be reduced to a benefit-cost calculus. These benefits should be noted and their importance discussed. Substantial benefits of this type may make an otherwise unprofitable project acceptable. It should be recognized that such a decision to accept a project implicitly assigns a minimum value to such benefits. Care should be taken to assure that such implicit values are reasonable in the context of overall levels of per capita income, public sector spending, etc.

10. Both costs and benefits should be calculated on an incremental basis, that is, only those portions of costs and benefits that are due to the project. This is

particularly important in improvement, expansion, or rehabilitation projects. Calculations of incremental costs and benefits, therefore, requires a "with project/without project" procedure, where all costs and benefits with the project are calculated net of costs and benefits that would occur without the project.

11. Costs and benefits need not be adjusted for projected rates of inflation unless there is reason to believe the rates of inflation will differ significantly between costs and benefits.

12. An output five years from now is less valuable than an output today. Therefore, since project costs and benefits occur across time, they have to be discounted in order to compare them. The general discounting procedure is explained in any of the project analysis manuals. The critical question is the choice of a discounting factor - the social rate of return on capital. Theoretically this rate of return is the price of saving which is determined by supply factors (the rate at which consumers are willing to put off consumption today for increased consumption tomorrow) and demand factors (the rate at which investors are able to transform capital today into increased output tomorrow). Because of numerous interferences on the part of government in financial markets, it is not possible to rely on market rates as indicators of real social rates of return. Therefore estimates need to be made on the basis of information about private market rates, commercial rates for foreign exchange loans, etc.

13. Once economic costs and benefits have been calculated as flows over time, it is a relatively simple matter to compare them in order to determine whether a given project is economically worthwhile. The normal procedure is to calculate an internal rate of return (IRR). The net annual benefit flow is calculated by subtracting costs from benefits for each year of the project. Most financial calculators have programs for converting this flow of net into an IRR which is defined as that discount rate that reduced the stream of net benefits to approximately zero. The higher the IRR the more profitable the project. A project could not be justified on economic grounds if the IRR is below what is believed to be the opportunity cost of capital.

14. Since all these calculations depend in part on some imprecise estimates of cost and benefit flows (both due to the use of shadow prices and to the assumptions inherent in the project) it is useful to perform a sensitivity analysis on the IRR. This is done by varying the critical assumptions such as incremental yields in agricultural projects, estimates of the shadow price of foreign exchange, and project delays, to determine what impact different assumptions would have on the IRR.

15. As noted previously, economic analysis can be used, where benefits are largely immeasurable, to compare the stream of costs of any set of alternative project designs in order to determine which of those designs represent a least-cost solution, and is, therefore, preferable. Shadow prices should be used where appropriate in a least-cost analysis. A least cost analysis should be accompanied by a demand analysis that demonstrates the need for the project's output. The need for this kind of analysis obviously should be identified early in the project cycle (at the PID stage) so that alternative designs are undertaken.

16. The economic analysis should incorporate income distribution criteria to the extent possible. The methods of analysis described so far deal only with economic efficiency criteria, not equity criteria. Several of the sources listed at the end of this appendix decribe how distributional weights can be incorporated in the traditional forms of cost-benefit analysis. In addition, if employment creation is a major objective of the project, criteria such as cost per job should be calculated in order to determine how efficiently the employment objective is to be achieved. Total incremental employment effects should also be presented as a project benefit.

17. Finally, if the project has as a major objective a favorable impact on the country's balance of payments, the net foreign exchange impact of the project should be analyzed. In the traditional methods of cost-benefit analysis, the net streams of costs and benefits do not distinquish between local currency and foreign exchange items.

C. The Use of Economic Analysis in Different Sectors

1. In general, the project analysis procedure described above is most easily applied in projects clearly designed to have marketable economic outputs - increments in income or output. This is true of most agricultural and industrial projects, as well as most infrastructure projects. For example, analysis is applicable to transport projects such as roads where the outputs are reduction in transportation costs and time savings. An important indirect benefit of such projects is the increase in the value of land when transport costs are reduced. While this is difficult to estimate in the absence of competitive land markets, such benefits are fully represented by the increase in the value of agricultural output due to the decrease in transport costs. Penetration roads analysis tends to be more complicated since causal factors may be more dispersed and project timing (of other required inputs) more difficult to estimate.

2. Many AID projects involve more than one type of activity. If these activities are integrated, such as an integrated rural development project that includes credit, extension, seed, fertilizer, and research components, all the activities should be analyzed together in the cost-benefit analysis. In other words, their combined costs and benefits should be computed to yield a single IRR for the whole project. The test for whether two activities are integrated is whether the outputs of one are affected if the other does not occur.

3. While it is more difficult to estimate economic benefits in human resources projects - i.e., educaion, health and population - methodologies are available for converting quantifiable, but non monetary, benefits into monetary ones. In education, for example, the general procedure is to estimate the lifetime increments in income due to increased education levels, and in many countries, the data for doing these calcultions are available.

4. Even when it is not possible to reduce quantifiable outputs (e.g. number of births averted) into monetary measures, economic analysis allows one to

estimate the cost per unit output which can then be compared to alternatives. For example, a project that costs $100 to avert a birth would be viewed less favorably, other things being equal, than one that costs $70.

5. Where outputs are not easily quantifiable ex ante (e.g. agricultural research projects), it still might be possible to determine whether such a project is economically sound. One procedure is to estimate a desired rate of return and calculate the stream of net benefits necessary to achieve such a rate of return. In the agricultural research example, a desired rate of return of 15% might imply an increase in yields of 50% and a spread of the research results to 10,000 farmers per year. It would then be necessary to make a judgment as to whether such outputs were feasible.

E. Recommendations for Further Information

It is beyond the scope of this Appendix to give project design personnel even a rudimentary education on the economic analysis of projects. While the basic methodologies are standard, the exact application of such methodologies in different sectors and projects calls for special and particular treatment. There are no hard and fast rules for determining shadow prices or social rates of return, and in many cases the task calls for reasonable judgments rather than exact measurement. Annex A to this Appendix is a series of documents which explain in much greater detail the methodology of project analysis, and which should be referred to for a more complete handling of the topic. This list is not exhaustive, and in many cases designers may wish to consult other sources.

General Sources Treating Project Economic Analysis

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Development Finance Companies, April 1976 (Sector Policy Paper), World Bank.

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APPENDIX 3F

SOCIAL SOUNDNESS ANALYSIS

The Social Soundness Analysis has three distinct but related aspects: (1) the compatibility of the project with the sociocultural environment in which it is to be itroduced (its sociocultural-feasibility); (2) the likelihood that the new practices or institutions introduced among the initial project target population will be diffused among other groups (i.e., the spread effect); and (3) the social impact or distribution of benefits and burdens among different groups, both within the initial project population and beyond.

A central substantive concept of AID policy is the need to assure the wide and significant participation of the poor in the development process. In this sense, "participation" means not only sharing the economic benefits and contribution of resources but also involvement in the processes of problem identification and solution, subproject selection and design, implementation and evaluation. The participation approach to development demands that AID project designers and implementors have a much deeper understanding of the sociocultural setting of projects than has been required in the past.

The analyses and factors listed on the following page are not intended to be of equal weight and significance. For some projects all factors will be important; for other projects some factors will have higher significance than others. For example, it is believed that motivation is a key factor which will be crucial to any project. Some other factors may be equally important or may fade in significance if motivation is extremely high. The point is that there will be an interplay between social factors and the project design. These factors are not meant as hoops through which the project must jump rather they are seen as real features of the terrain on which the project is proposed to operate. Just as a road's design must be suited to the physical terrain so must many projects be adjusted to the particular social terrain--some features of which will present major design questions while other features may not affect the project or, indeed, may be counted upon to significantly boost the probability of project success.

A. Sociocultural Feasibility

Assessment of sociocultural feasibility requires first that values, beliefs, social structure, and organization be taken into account.

The best method for determining the feasibility of project objectives is to know the existing social landscape. There is, for instance, a growing body of literature about the small farmer. He is depicted as an industrious person who, with the proper incentives and inputs, will respond immediately. But many nations where subsistence agriculture is strong and traditional social relationships stronger, are not readily going to turn into collections of individualized model small farmers.

Second, is the necessary contextualism of development measures. A successful introduction or innovation should call for the least amount of social disruption consistent with the attainment of developmental objectives. How does a new crop relate to the existing agricultural economy? How likely is it, given the investment costs, that most poor farmers could grow it? Would it be better to improve existing methods of production in the small farmer and subsistence sector? Ghandi's famous use of the spinning wheel in his promotion of Indian economic self-reliance is an example of brilliant contextualism. Part of the context of the project will be the social structure involved; i.e., the groups and power relationships with which the project must cope. At issue will be: can the existing social structure be used, perhaps with some changes, to expedite the desired developmental change or is an alternative structure necessary.

Third, it is important for project papers to demonstrate that things assumed to be a benefit by the donor are similarly perceived by the recipient. An important principle to be established in finding out what is a benefit is the importance of working from the subjective image that people have of their own circumstances to the devising of measurements that can be agreed upon by donor and recipient for dealing with these problems. What is the meaning of unemployment? What is human distress?

Finally, any understanding of the impact of an innovation upon a culture should involve an understanding of the cultural baggage or demands carried by the innovation, i.e., what demands will the project make on people to take on the characteristics of the donor's society?

Who Lives Where?

A certain amount of basic data against which to assess both socio-cultural feasibility and the likelihood of the desired spread effects of a project must first be acquired. A first step should be a mapping of the area to be affected by projects or programs in such a way that population density and location, ethnic or significant tribal affiliations, language, religious and political orientation, are all depicted in relation to prevailing patterns of economic activity. This would involve overlay mapping the predominant mode of production in terms of the implied sets of social relations. For example, in agricultural projects; is agricultural production carried on by family units, wider based kin groups, or individuals? What is the predominant mode of ownership in each locality: is it a system which vests ownership in individuals or groups?

Groups in local areas should only be identified if they appear to be distinctive, e.g., religious groups, diametrically opposed political parties or tribal groups, different ethnic groups; groups, who for some self-held reasons, act on the basis of a perception of their difference from other groups.

How Are They Organized?

Development projects can entail creation of their own organizational structures using scarce local resources and imported technical and managerial inputs which would be difficult for any country to replicate on a large scale. It may be best to start with an organizational unit that is already locally familiar. In many countries legal recognition of traditional tribes or lineages as corporate groups would enable these entities to trade, hold property, sue and be sued. Modernization efforts which replace the lineage or tribe may entail creation of several unfamiliar and different cooperatives, organizational forms such as individual land tenure, registrations and business law. Replacing the traditional form of organization may thus require new sets of legislation and new sets of Government workers. Use of the traditional organization could maximize existing knowledge, patterns of leadership and entrepreneurial skill. The level of organization specialization in development organizations should be determined by the present social and economic organization of potential project participators and not the degree of specialization thought necessary for the most efficient dispatch of Government business. This said, the case for sticking with existing organizational forms is not clear-cut. To a considerable degree the organizational context of the project can influence its result; use of closely held, traditional power centers to administer a project can assure its failure. New organizational forms can be difficult to start and expensive, but they can create a climate of change necessary for development as well as bring about better use and distribution of project resources.

In sum, no prejudgment is made on whether existing or new organizational units should administer the project. But the importance of this question is considerable as it will entail who gains and who may lose from the project. These considerations will help answer the following questions from a social perspective: What is the basic organizational structure through which the innovation should be channeled? Should a new organization be created or will existing local Government or village organization be sufficient? Note: whichever choice is made will affect power relationships since resources and responsibilities are involved. Will the organizational structure chosen be likely to enhance the likelihood of a positive spread effect?

Allocation of Time

It is unwise to assume that people will respond to economic incentives which to external donors or indigenous officals seem adequate. Lack of response to such incentives should not be viewed as irrational behavior but as reflecting the weight of concerns and priorities other than profit maximization, such as avoidance of risk, strength of non-material values, fear of retaliation, threat to status and/or security, or preference for leisure. For example, if 70% of workers' time is spent

on subsistence agriculture necessary for the maintenance of family life and 30% of cash crop production, a labor intensive scheme that would seek to double monetary incomes may well run into difficulties. It is really vital to assess the amount of discretionary time available to potential project participants. It is also necessary to know the existing allocation of time for males and females, including seasonal variations.

Motivation

What would be the motivation for participation in development activities of the type covered by a project? This involves placing oneself in the position of significant groups, adopting their point of view, and trying to work out the likely reaction. Is the need for the project actually perceived and accepted by potential participators? Often the rationale for a project is really only understandable in the light of information possessed by top management in Governments and development agencies and not shared with prospective participators. In other cases the rationale may be understood by prospective participators but not accepted by them because, rightly or wrongly, they do not perceive it to be in their interest.

A definite motivation must be assigned to each significant group that is expected to participate; it should be the actual motivation of that group and not what someone imagined would be the motivation if he or she were a member of that group. For example, in one group motivation may be a desire for increased power and prestige; another group may desire to follow the example of opinion leaders; another group may desire financial reward; another group may be moved by patriotism because of a key role the project may play in the nation's economy; a desire for their children to have better opportunities, for increased leisure time, for increased efficiency, or even competitiveness may be important.

It must not be assumed that all motivations are conducive to development as we perceive it. If it is found, for example, that a certain population wants a project because it will enable the male farmers to retire their female charges into virtual isolation, a very fundamental question about the project will have been surfaced. Motivation, then, is two-fold: What incentive or perception is needed to interest a given population in a project and what will be the population's disposition of the probable gains from the project?

Minimum Participator Profiles

It should be possible to construct a profile of the potential participator. This profile must specify the minimum requirements, i.e., level of education, resources, skills, attitudes, etc., which would

make individual participation possible as well as the maximum attribute possession which might tend to discourage participation on the part of various individuals. A minimum participator profile will emphasize who could reasonably be expected to participate. Mobility and motivational data will give numbers and locations. Where, at minimum, is the project or program to affect? What is the basis for this estimate? How, at minimum, are participators expected to adopt new patterns of behavior implied by adoption of innovation? What is the minimum, in terms of extension contact, media contact, or contact with opinion leaders, necessary to secure lasting benefits from the program? What is the longest period of time envisaged for the adoption of innovation?

Matching Participators and Projects

When data on the nature and location of groups and the participators profiles are compared, it should be possible to identify and locate those who probably will participate. This would mean that against the background of proposals one could roughly estimate where the potential participators were located and how many could reasonably be expected to become involved. These potentials could be quantitatively mapped out on charts. The charts would reflect where and with what kinds of groups a particular type of project could actually be executed and where it should be executed to achieve maximum effect.

Who will not participate directly in the project? How will successful execution of this project benefit these people? What groups will be adversely affected, receive indirect benefits (which they may not be aware of) or be totally unaffected? What are the number and characteristics of such groups? Where are they located? There should be some plausible linkage, some definitely discernable relationship, between the circumstances of those who are small in number and who will be assisted by the project and those who are many and who are ultimately expected to become beneficiaries.

Obstacles

Armed with data on the location and number of potential participators as well as an assessment of what would have to happen if this potential is to be realized, the next step would be to identify social, political, or religious obstacles to project implementation. These obstacles, if overcome, should result in self-generation of project or program effects to encompass a predefined target area.

Those groups which stand to lose or gain nothing as a result of satisfactory project implementation should be identified. Any change in patterns of resource allocation, deferred consumption, or elimination of inefficient or wasteful practices will worsen the position of some groups.

For example, cooperatives may be opposed by private businessmen; birth control measures may be opposed by religious groups or doctors; mechanization may be opposed by unions; ethnic groups may oppose aid to other groups; creation of government monopolies may be resisted by private interest; private consumer groups may oppose paying for services which stem from attempts to improve institutional performance.

Communications Strategies

How to communicate with potential project participants in the project and spread areas is a priority problem which is often complicated by the cultural distance between change agents and prospective participants, especially when the latter are rural, poor, uneducated, and/or belong to different ethnic, linguistic, or religious groups. Successful communication requires devising a communications strategy, identification of points of origin for communications and points of destination, the process of communication covering who does what, and the content, nature, and frequency of the communication. The extent to which modification and improvement of existing materials is required can be determined. News media links, radio, papers, personal contacts, etc., may have to be instituted to avoid bottlenecks. Decisions should be taken on the timing and frequency of messages, the need to have feedback so that necessary improvements can be made, and the best type of media for particular situations.

What to communicate in order to encourage participation is the next problem. Emphasis should be on the advantages to prospective participants, notably increased incomes and/or improved well-being. Few development programs or projects explain the economic and social logic behind development measures to potential participants. But it is, or should be, true that achievement of a significant change will enable creation of a better environment. These kinds of national or regional goals can be made meaningful through communications strategies at the local level.

B. Spread Effects: The Diffusion of Innovation

Since there are not enough resources to mount enough projects to ensure that every poor person or family can become a direct recipient of project aid the achievement of spread beyond the initial project target population is a crucial issue in the design and appraisal of projects. Ideas and assumptions about how to produce project spread effects are still at the theoretical stage. It is, however, generally recognized that ability to achieve significant spread effects will be a critical factor in determining the developmental impact of projects which aim to help the poor. The impact of many projects has been on the relatively well off and the outcome of projects in which the very poor are the target population is hard to predict. Desire or capacity to participate in development projects is often low among the very poor and it seems reasonable to suppose that as the target group for projects shifts more to the poor, the achievement of spread effects is likely to become even more difficult.

Project designs have often not dealt adequately with the achievement of spread effects. As a result, years after the completion of the project, the level of performance is far higher in the original project area than in the areas that were supposed to be encompassed by spread effects. For example, attempts to improve institutional performance have often been successful but only for the institution directly affected by the project. There should be a statement relating project target figures to existing levels of income and productivity, both in the project and potential spread areas.

Resources are now concentrated in a project area in order to reach the critical level thought necessary for development. But the potential spread area where development is to take place, and where spread must take place if the project is to justify itself at higher purpose or goal levels of analysis does not directly receive project inputs. Spread effects can provide a linkage between the conception of a project and the conception of a sectoral goal. Planners should try to know how many projects must be located in what areas, among what kinds of people, with what probable outcome, in order to give effect to a sectoral or regional plan. Each project proposal should have an explicit treatment of project spread plans.

The achievement of spread effects is a genuine inter-sectoral and interdisciplinary problem. Achievement of spread effects must rely heavily on economic insights but also requires a geographical dimension because of the need to consider climate, environment, demography, and relationships involving space and location; it requires a sociological dimension because of the need to assess values and beliefs in relation to behavior; it requires a psychological dimension because of the need to assess motivation and to devise and construct a communications strategy; and it needs an ideological dimension because the issue of who gets what and why is a political and cultural matter.

The concern here is with socio-cultural rather than technical constraints on the spread of a technical or institutional innovation beyond the initial project population. It thus involves applying many of the considerations discussed above in connection with the feasibility of the project in its initial setting to the broader population to which spread is intended. These considerations include the social characteristics of the population, how they are organized, how they allocate their time and can be expected to respond to incentives, their motivations, minimum participator profiles, obstacles which can be anticipated, and communications strategies. The following paragraphs deal with some special considerations which, while relevant for the initial project population, are especially significant for achievement of spread effects.

Leadership/Authority

In each area to which spread is intended it should be possible to ascertain who are the most respected leaders. It should be emphasized that often support from such figures far outweighs the best efforts of good extension workers. Special attempts should be made to ensure the support of such people. Such individuals may well perform in their communities the same role that extension personnel perform in the area of immediate project impact and on that basis it may be reasonable for the government to recognize the quasi-official nature of their work by giving them such reasonable assistance as they may request. It is necessary, however, to ascertain the interests of such individual groups and be confident that they are not in conflict with desired social aims.

It is important to delineate the characteristics and functions of leadership in the various groups. For example, where individual choice is not heavily circumscribed by social obligations or institutional regulations, it will be useful to know who the opinion leaders are and where they are located. This includes understanding how leaders exercise authority. The support of such people may ultimately be vital to the success of policies aimed at securing the adoption of a technical or institutional innovation. These leaders may not by themselves by involved in project type activities; instead, they may be political or religious leaders, high officials, or even the most senior citizens. The issue that has to be resolved is who are the leaders -- both modern and traditional -- whose support or cooperation or lack of opposition will be essential to the success of particular projects and programs? (The answer to this may be that alternative organizational structure/leadership may need to be a necessary part of the project.)

Patterns of Mobility

Where do people migrate to seasonally or permanently? Where do they go to work, to market, to shop, to look at demonstration farms, or for leisure? Each group of people will have a radius of mobility, or outer limit beyond which there will be a few personal contacts. Establishment of this locus and radius of mobility would be of great importance in decisions to locate projects and/or in the decisions about extension work or improvement of institutional performance.

With the mobility radii for various groups in a country, patterns of movement might be broken down for significant activities, e.g., agricultural, trading, religious, so that estimates of the most frequented places of personal contact could be identified. Where seasonal activities and inactivities are involved, the time of the year and the length of time involved, might be of utility.

At the same time, also, the typical mobility patterns for officials could be noted on the same basis, that is to say maximum distance traveled from home stations and locations of home stations and areas visited, activities, duration of contacts with clients, and frequencies of such contacts.

It may be helpful to plot movements within the radii of mobility insofar as contact with opinion leaders is concerned. Then, with data on the nature and location of media, it would be possible to obtain a good idea of how the average person receives information. Information mobility should be assessed. The information inputs into a community can be charted out to attach weighting in terms of effectiveness and cost. Particularly in education projects the question of vertical mobility becomes crucial as the success of such projects depends upon whether vertical mobility is possible.

In effect, the attempt should be to try to establish the process for learning and the adoption of innovation.

Previous Project Design and Execution

Very few projects are actually new in conception or design; they may be smaller or larger, they may be in new areas or have some new dimension, but there is usually a discernible relationship with the past. Cause and effect are difficult to determine. Frequently, increases in productivity may occur due to causes that have nothing to do with a project (such as the construction of a road into the project area) though often it is claimed that they have occurred because of a project. Is there any evidence to show that spread effects occurred as a result of successful execution of previous projects?

It has also been found that often a "new" project has a history of trial and failure under earlier governments, including the colonial administration. This history may tell a great deal which can help the analysis of the "new" project.

Maximum Information and Resource Distances

What has to spread? Does spread involve knowledge, techniques and methods, plant and genetic material, livestock, etc.? There are obvious constraints on the distribution of physical resources such as plants and livestock and the limitations of other forms of spread can be assessed by examining communications data as well as the data on mobility.

Most projects adopt a short time horizon. Often, development needs to be conceptualized over a fifteen or twenty year period. The timing of most projects is predicated by the implicit model of inputs and outputs. It will take so long to obtain seed and fertilizer, so long to achieve a herd size of some figure or other; it is very seldom the case that project time horizons takes into account how long it takes to learn or acquire the new methods and techniques that are required for social change. How long should be allowed to assure that desired spread effects are under way with reasonable prospects of continuing?

Spread effects must be planned and worked for rather than assumed to occur naturally. Traditional project planning has emphasized the vertical relationships of a personal nature between officialdom and participators. But spread may often involve horizontal relationships between communities, farmers or media inputs. Spread effects can be understood more adequately when more comprehensive social data is collected. If reliable data has been obtained it should then be possible to estimate more accurately than at present the actual numbers of potential participators and resources required to achieve change.

C. Social Consequences and Benefit Incidence

Both the project itself and its spread to a wider population will affect different groups in different ways. Some groups will be better off and some worse off. The increasing concern with reaching the poor and those groups hitherto largely by-passed in the development process - such as women - creates a special need to identify the differential social impact of a project and particularly how it will affect the poorer groups. The most effective opportunity to consider benefit incidence is at the inital stage of project concention and formulation. At this stage it is still possible to reject a project if its social impact is regressive, to modify it to make it more compatible with equity objectives, or to consider appropriate compensatory measures to rectify the damage or losses to those who are likely to be adversely affected. At this early stage, it is important, therefore, to identify, as explicitly as possible, (a) the group(s) whom the project is intended to help, (b) those who are likely to be adversely affected, and (c) those who may be indirectly affected (either positively or negatively) such as ultimate consumers of a basic product, the price of which is reduced or increased. In other words, how are the benefits and burdens of the project distributed among different geographical, functional (e.g., farmers, herdsmen, farm laborers, construction workers), or communal groups and what is the socio-economic standing of these groups relative to the national or regional level of income and well-being?

In assessing benefit incidence it is necessary to bear in mind that the recipient of the goods and/or services provided under a project is not necessarily the person to whom the major benefits of the project accrue. A tenant farm family, for instance, may receive new seeds, fertilizer, and credit to pay for them and their yield may rise. But the landlord may raise the rent and appropriate the lion's share of the incremental income flow. In order to continue to rent the land at the new (higher) rent the tenant farmer must continue the new practices; but this will involve bigger inputs of labor on the family's part and perhaps greater risk. How much benefit accrues to the farm family? Or a farmer may adopt new practices and his yield may double, but the price of his crop drops so much as a result of other farmers doing the same that his income rises very little (and he and/or his wife also may be working harder and assuming greater risks). The beneficiaries are those who pay lower prices for the food they consume, such as landless laborers and employees who get new jobs in factories, public works, etc. made possible by the drop in the price of wage goods.

Identifying the incidence of benefits is somewhat like identifying who bears the burden of indirect taxes; both involve how much of the benefit (or burden) is passed on.

As noted above the adverse effects of projects and the groups affected should be identified as clearly as possible with a view to modifying the project or compensating those adversely affected, especially if they are members of the poorer or underprivileged social strata. For instance, agricultural projects which make access to productive resources more unequal, promote the concentration of land in the hands of a few farmers, and encourage labor replacing mechanization tend to aggravate discrepancies in levels of living, reduce employment opportunities, and accelerate migration to the cities. All of these probable results involve social and often economic costs which need to be taken into consideration.

Assessment of the distribution of the benefits and burdens can make use of the data and insights obtained about the project population discussed above in connection with sociocultural feasibility.

In dealing with equity and benefit incidence a limited number of criteria seem especially important for assessing the social costs and benefits of projects. These criteria are as follows:

1. Access to resources and opportunities (e.g., land, capital credit, education, markets) and in what ways and to what extent such access is broadened (or narrowed). The questions to be identified and analyzed under this heading would include, in the case of an agricultural loan, trends in land tenure arrangements and how they would be affected; the availability to target farmers of improved inputs (seeds, fertilizers), implements and the credit with which to finance them; access to technical information and to markets, including the existence and extent of farm-to-market roads; and how price policy, including taxes and subsidies, affect the target group. This criterion measures the potential effect of the project on the distribution of wealth and income.

2. Employment. In a sense this is a special case of access to resources and opportunities (i.e., productive work) but because of its special importance it deserves to be treated separately. Among the issues to be covered here are factor intensity and the related question of the amount and type of employment to be generated or eliminated as a result of the project, as for instance by the introduction of labor-abosrbing or labor-replacing practices and equipment. It is especially important to consider and predict the implications for target groups which are already characterized by serious unemployment/underemployment, such as both urban and rural unskilled workers, the educated unemployed, and women.

3. Rural displacement, migration, and urbanization. This criterion is concerned with what groups might be pushed off the land or in other ways uprooted as a result of the project, where they would be likely to move

to, and how they would be reabsorbed into the economic and social life of the country.

4. Changes in power and participation as between the target group and different socio-economic, regional, ethnic, and other groupings and the implications thereof for public policy. Each of the three preceding criteria is related to the redistribution of power and of opportunities for participation, but it is also necessary to recognize how such shifts affect the capacity of different groups to influence public policy.

In analyzing the social implication of a project proposal under each of these four criteria, precision should be stressed and quantitative data should be developed wherever possible. Quantification clearly is easier for some criteria, such as the employment effect and the access to resources of target groups, than for say, the effect on the distribution of power and influence. Despite the difficulties of measurement, quantification, even if only in orders of magnitude, remains important to support the qualitative analysis. Where quantification is not possible, specificity should still be stressed as much as possible.

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When should information discussed in this appendix be produced, when should its collection be undertaken? What resources will be required to carry out this kind of work in the initial stages of data collections? In the case of a region or project area, with the use of professional expertise the data should be possible to obtain in two to three weeks; in the case of a national collection it would probably be advisable to obtain the help of some appropriate local institution or university contract, and again this should entail an exercise of not more than a few months. Social information should not, of course, stand out as being different or special but should be collected in phase with, and integrated with, other stages of project documentation.

APPENDIX 3G

ADMINISTRATIVE ANALYSIS

[redacted]

A. Purpose

The purpose of the Administrative Analysis is (i) to assess the administrative capabilities of the B/G's Implementing Agency in the areas relevant for the execution of the project, and (ii) to determine whether a specific implementation plan is likely to be workable.

B. Assessment of Capabilities

1. Scope of Analysis

The initial assessment of the administrative capabilities of a B/G agency is best carried out by systematically reviewing its organization, management and staffing in those functional areas as discussed in Section B of Chapter 8, and usually include Project Management, Financial Management, Contracting, Training, Reporting and, in many cases, operating the facility when completed. The specific tasks for which the Implementing Agency would normally be expected to accept responsibility are also outlined in Chapter 8; that outline could be used as a checklist for exploring the agency's capabilities.

2. Elements of Analysis

a. It is useful to carry out the administrative analysis separately for three elements of the agency's operations: organization, management and staff.

b. Organization. Under this heading, the following questions should be examined:

-- Legal Status. An Implementing Agency may operate as an integral part of the B/G's government, as an autonomous or "semi-autonomous" entity, such as a government-owned corporation or "authority," or as a mixed or privately owned corporation. Its legal status is important in that it usually determines to a large extent the agency's

authority to act without obtaining specific approvals from other agencies or governmental bodies, such as committees established to approve contracts.

-- Financial Status. Agencies may have authority to commit their funds, whether provided from the government's budget or not, and to disburse funds without obtaining approval from other agencies; in other cases, such approvals must be obtained for specific financial transactions. Such questions are important to judge how promptly an agency is likely to act on matters like signing contracts, establishing Letters of Credit or disbursing funds by other means.

-- Pattern of Organization. The ability of an Implementing Agency to act promptly is likely to be affected by its internal organization; this is true particularly for larger agencies and line ministries. It is, therefore, important to determine to what extent the part of the agency directly responsible for project implementation depends on the cooperation of other parts of the same agency or on their approval of actions to be taken. (See also subparagraph c, below.) To the extent that such interdependencies exist, the management and staffing of those parts of the agency which are indirectly involved in implementation actions must also be examined.

c. Management. The following aspects of the Implementing Agency's management must be explored:

-- Delegations of Authority. Frequently only the top manager of an agency has authority to act; in other cases, some

-- authority is delegated to lower-level managers. The degree to which authority is delegated will influence the responsiveness of the agency to requests for action and its ability to initiate action on its own.

-- Experience and Capability of Managers. The experience of top management, and of lower-level managers in the area of their responsibility, their backgrounds and reputations, are likely to be determining factors in the allocation of implementation responsibilities to the agency. Important in the assessment of managers is not only competence in their professional field but also ability to manage the activities of their subordinates, to lead and coordinate.

d. Staffing. The adequacy and turnover of staffing should be assessed in the light of the workload which the implementation tasks to be assigned to the agency represent. In that assessment, both the number and qualifications of personnel involved, and work not related to the project which is also assigned to them, should be considered. When training is to be a significant component, factors such as the timely availability, qualifications and general English language proficiency of candidates for training is to be ascertained, as well as the capability of the host country or institution to retain and utilize AID trained staff should be examined. *

3. Testing and Implementation Plan

a. The initial assessment of an agency's capabilities outlined above will lead to conclusions on the functions and specific tasks which the agency can be assigned with the expectation that its performance will at least be adequate. Should the conclusion be that the agency cannot perform any of the functions considered, it is tantamount to the conclusion that the project cannot be implemented. (See paragraph B3b of Chapter 8.) In most cases, the conclusion will be rather that there are weaknesses in the management, organization or staffing of the Implementing Agency which must be overcome if it is to perform its function. Such weaknesses must be taken into account in developing an implementation plan. That can be done in several ways. One is to plan for the Mission to assist the agency at certain times and in certain areas during project implementation with advice and collaboration in the performance of specific tasks; another is to provide for assistance in certain areas by consultants under contract to the B/G or AID as an additional project element; finally, if neither of the foregoing remedies is feasible, only those tasks which the agency is judged to be able to perform adequately should be assigned to the B/G in the implementation plan. The balance will have to be undertaken by other parties.

* Revised

b. After developing a preliminary implementation plan, (see also Chapter 9) it should be tested against the conclusions reached from the assessment of capabilities. This can be done by first listing in detail all actions to be assigned to the B/G and comparing that list with the findings of the assessment. This may lead to some modifications of the initial plan and further discussions with the Implementing Agency to make sure that it understands precisely those tasks it will have to perform. Further modifications may be advisable as a result of such joint reviews. The Administrative Analysis is thus the basis for the development of the implementation and development of an organization and procedural mix which will increase the chances of successful project management.

APPENDIX 3H

CONTRACTING MODE AND PROCUREMENT PLANNING

A. Purpose

The purpose of this Appendix is to define AID's policy regarding the mode of contracting to be used in AID financed projects and to give some guidance on considerations that should precede the development of a project procurement plan. Project specific guidance should be obtained from mission or regional contracting or commodity specialists or their counterparts in the cognizant or Management Bureau in AID/W (i.e., from M/SER/CM or M/SER/COM).

* B. Procurement Contracting Mode

1. Mission Directors are responsible for assuring that project design assigns procurement responsibility in a manner which best fits the particular circumstances and will result in the most effective implementation of AID-financed projects. There is no longer a stated Agency preference between AID-direct and host country contracts.

2. The responsibility for procurement of AID-financed project goods and services required to implement bilateral projects may be assigned among a wide range of entities. The host country implementing agency itself or other host country agencies (such as central contracting agencies) may be involved. Either AID/W or the Mission may assume procurement responsibility, or AID or the host country may arrange for intermediaries (such as other U.S. government agencies, private firms, nonprofit organizations, or educational institutions) to procure needed goods or services. In assigning contracting responsibility, the Mission Director should take the following into account: *

a. General factors

(1). project design and objectives, including the type of goods or services required and any timing constraints;

* Revised Material

(2). Borrower/Grantee (B/G) preference;

(3). procurement capability of the B/G, including contractor selection, contract administration, and audit capability;

(4). relative costs;

(5). systems and procedures for effective contract support, including contract administration, coordination of services, payments and other administrative and logistic support availability;

(6). availability and experience of AID procurement, legal and program staff to advise and assist the host government or to undertake AID direct contracting;

(7). effects on establishment of desired institutional or professional relationships.

b. Special circumstances:

(1). U.S. university as a contracting party: Use of a direct AID contract may often prove to be more appropriate and effective for carrying out a project when a U.S. university will be involved.

(2). Collaborative assistance selection procedure: Either an AID direct or a host country contract, or a combination thereof, may be used depending on the circumstances that pertain to the respective roles of the parties and the nature of the long term collaborative relationships that are desired.

(3). Potential for Minority Business Contract: When a proposed procurement can be performed by a socially or economically disadvantaged firm eligible to receive awards under Section 8(a)of the Small Business Act, AID contracts directly with the U.S. Small Business Administration (SBA).

(4). U.S. Government Agency involvement: The B/G may designate a U.S. Government Agency to provide, or contract for, services or commodities when specialized expertise is required. For example, AID has a special purchasing arrangement with GSA for contraceptives, condoms, and malaria eradication equipment and supplies. In addition, USAIDs or AID/W may procure project goods or services.

(5). U.S. Government Owned Property: If, pursuant to Section 608 of the FA Act, U.S. Government property is to be used on the project, it may be provided by the AID Government Property Resources Division, M/SER/COM, under established procedures.

4. Waivers

There are no waivers associated with the selection of a particular contracting mode. The decision on the responsibility for contracting is made by the Mission Director or the AID/W official approving the project. This decision is to be reflected in the Project Paper or other accompanying project documentation. (See Handbook 1, Supplement B, Chapter 3 and Handbook 11, 12, 14 and 15 for details.)

C. Procurement Planning Considerations

The following procurement questions and planning considerations are provided to assist the AID Project Manager and his/her host country counterpart plan for the implementation of procurement activities during project development. Such procurement matters should be given general consideration as early as the PID stage. By the time the Project Paper is presented, a procurement plan, which is the outgrowth of such considerations, should be significantly advanced and assessed for its feasibility. Time spent in careful preparation of the project procurement plan can substantially reduce delays in actual implementation.

The participation of Borrower/Grantee personnel in the development of the procurement plan is very important. In many cases, the host country will itself be doing the contracting. Development of the procurement plan serves to familiarize Borrower/Grantee personnel with the usual steps (and possible snags) in the procurement process, clarifies what their responsibilities will be regarding the provision of inputs (in cash or in kind) and is intended to surface needs for special procurement authorizations or AID waivers. If waivers are to be needed, such should be obtained before or at the same time the project is authorized.

The following questions are intended to help define the procurement and contracting elements of a project. The Attachment hereto provides additional guidance. It is anticipated that the answers to many of the questions in Sections B, C, and D of the Attachment to this Appendix will be presented in the Project Paper itself in chart form. Questions in the Attachment are posed in reverse order from the order of implementation itself. This is to encourage Project Managers to analyze procurements from the perspective that, in order to accomplish actions by a certain date, they need to initiate such activities with an adequate amount of lead time. The charted summary of actions would be shown in the order of implementation.

Preliminary Procurement Planning Considerations

What specific commodities are needed? What about operating or spare parts?

What will they cost? (Allow for transportation, insurance, contingencies and escalation - compounded for future years.)

From what sources are they available? (Geographically and by type of supplier.) How long does it take for the supply of such goods or services?

What agency will finance which items? (Funds must be available in a commitment sense often before advertising or contracting can proceed and /or be available before purchases can take place - build this consideration into the schedule.)

Which participant or agency will purchase which items? Decisions should be based on analysis of project needs, other technical, political, administrative and cost considerations, and capability/capacity of participant organizations (prior experience, personnel, in-place systems, procedures and documentation, coordination and communications abilities etc.)

Will a procurement agent be used? If so, which participant will select and hire it? (Handbook 11, Chapter 1 for Host Country or Handbook 14 for Direct AID contracting.)

What procedures will be used for each procurement (AID, host country, local, combined donor rules)?

What will be the contract delivery terms (i.e., for commodities: FOB, FAS, C&F, CIF)?

What financing/payment procedures and documentation will be used?

Who (participant/agency officials) has to approve what specific actions? How will these approvals and other communications be coordinated? How long will they take?

Who will arrange for ocean or air transportation and e.g., door to door or marine insurance?

What is shipping availability? What are port conditions?

Who will arrange for customs clearance, inland transportation and

storage? Who will keep arrival, inspection and accounting records?

Is any local or offshore training in equipment operations needed? Who will provide such training services?

Are any erection, startup or maintenance services needed? By whom (suppliers, consultants)?

Will commodities be insured/warehoused/protected after arrival? What about equipment warrantees and/or performance bonding?

When will various actions take place? (A network type schedule can show how procurement actions relate to other project events. The schedule should be based on careful analysis of essential actions allowing a reasonable amount of time for each action. Some actions can be taken contemporaneously; others must be done sequentially. Allow time for communications and transmittal of documents. Remember, in a bureaucracy - ours or theirs - an approval usually takes more than a day or two.)

Do any of the planned actions require waivers, special approvals, procedures or justification to satisfy AID requirements? (See Chapter 2 of Handbook 15 on commodity eligibility.)

Detailed Considerations for Preparing a Project Procurement Plan

Reference

A. General

1. What goods or services will be obtained for the project under contract? List each contract separately, including a brief description of the scope of services or types of commodities and the intended type of contract and contractor as precisely as possible (e.g. agricultural extension services from a U.S. university, architect/engineer services for an irrigation feasibility study from a commercial firm, office equipment from the General Services Administration, advisory services to the Ministry of Agriculture from an individual).

HB 1B, Ch. 3

2. Which of the contracts listed above will be awarded by the borrower/grantee? Which will be awarded by AID? Explain briefly why a direct AID contract is preferred instead of a host country contract.

3. List critical dates for the work under each contract. Include beginning and completion dates for actual work, as well as intermediate dates which must be met in order for the project to proceed expeditiously.* Consider events which may affect the scheduling, such as planting season, monsoon season, religious observances,, etc. Dates may be shown either specifically (e.g., May 1, 1982) or as elapsed time before or after a benchmark date (e.g., six months after the Project Agreement is signed).

4. What is the estimated cost of each contract? Show, insofar as possible, the local currency and U.S. dollar percentages.

HB 1B, Ch. 15

5. How will each AID financed contract will be paid (i.e., Direct Reimbursement to the B/G, Direct Letter of Commitment, Bank Letter of Commitment/Letters of Credit, Federal Reserve Letter of Credit, Direct Payment by AID/W or the Mission)?

*May be presented in chart form.

B. Contracts for Technical and Professional Services

HB 11, Ch. 1 1. Country Contracts

For each country contract for technical or professional services identified in A above, consider:

*a. The date by which technicians should be on site;

*b. The logistic support to be provided by AID or the borrower/grantee, with special emphasis on those items required before the contractor begins performance such as housing, office equipment, etc., and items critical for other stages of performance;

*c. The elapsed time between contract signature (including AID approval) and the time technicians will arrive;

*d. The typical elapsed time between completion of contract negotiations and final host country signature and approval of the contract;

*e. Estimated time to obtain a cost proposal and complete negotiations with the contractor;

*f. Time required to evaluate technical proposals and select a contractor;

*g. Time required to obtain technical proposals. Include preparation of the Request for Technical Proposals mailing time to distribute the RFTP and receive proposals, and time for contractors to prepare proposals;

*h. Time for prequalification, if used. Include preparation of prequalification questionnaires, mailing time to distribute questionnaires and receive completed ones, time for contractors to complete the questionnaire, and time for evaluation to establish a prequalified list;

*i. Advertising time, including preparation of the notice, time to process the notice for publication, and time to receive responses.

*May be presented in chart form.

*j. Are any waivers or special authorities necesary to proceed as planned?

*k. Review any other pertinent factors.

HB 14

2. Direct Contracts

For each AID direct contract for technical or professional services identified in A above, consider:

*a. The date by which technicians should be on site;

*b. The logistic support to be provided by AID or the B/G, with special emphasis on those items required before the contractor begins performance, such as housing, office equipment, etc., and items critical for other stages of performance;

*c. The elapsed time between contract signature and the time technicians will arrive;

*d. Time from receipt of technical evaluation until contract is signed (including audit review and negotiation). (98 days may be used for AID/W procurements);**

*e. Time for technical office evaluation of proposals (63 days may be used for AID/W procurements);**

*f. Time for receipt of PIO/T by contracting office until proposals are received (including small business review).

*g. Time for preparation and clearance (both Mission and AID/W of PIO/T.

*h. Are any waivers or authorities needed to proceed as planned?

*i. Review any other pertinent factors.

*May be presented in chart form.
**Elapsed time estimates based on previous AID procurement actions.

C. Construction Contracts

HB 11, Ch. 2 1. Country Contracts

For each country contract for construction services identified in A above, consider:

*a. Date by which construction is to be completed;

*b. Date by which contractor must commence work at site;

*c. Elapsed time between contract signature (inluding AID approval) and the time contractor can get personnel, equipment, and materials to site;

*d. Typical elapsed time between selection of contractor and final host country signature of contract;

*e. Time needed to evaluate bids;

*f. Time to solicit and receive bids. Include preparation of the Invitation for Bids (including AID approval.), distribution, completion of bid documents by bidders, and submission of bids;

*g. Time required for prequalification. Include preparation of the prequalification questionnaires, mailing time to distribute questionnaires and receive completed ones, time for contractors to complete the questionnaires, and time for evaluation to establish a prequalified list;

*h. Advertising time, including preparation of the notice, time to process the notice for publication, and time to receive responses.

*i. Are any waivers or special authorities necessary to proceed as planned?

*j. Review any other pertinent factors.

*May be presented in chart form.

2. Direct Contracts

Direct contracts are rarely used by AID for construction services. If such a contract is anticipated, the Office of Contract Management, AID/W, must be consulted before the procurement plan is prepared.

D. Procurement of Equipment and Materials

HB 11, Ch. 3

1. Country Contracts

For each country contract for equipment and materials identified in A above, consider:

*a. Will the B/G procure commodities itself or will a procurement agent be used? If the latter is there an existing contract with a procurement agent? If not, and AID will finance procurement agent service, discuss the procurement agent contract in the context of B above;

*b. By what date(s) must commodities be delivered or installed at point of use?

*c. How long does it take to get the commodities from point of production to point of use (include both international and local transportation and typical customs clearance time)? Consider factors which might influence the delivery schedule (e.g. roads impassable during monsoon season, port backlog of 4 weeks, etc.).

*d. Are commodities in stock or made to order? If the latter, how long does it take to produce the commodities?

*e. Typical elapsed time between the time the supplier is selected and AID approval of contract (including final host country signature of contract);

*f. Time to evaluate bids or negotiate offers;

*May be presented in chart form.

*g. Time to solicit and receive bids or offers. Include preparation of the Invitation for Bids or Request for Quotations (including development of specifications), AID approval of the IFB/RFQ, distribution, completion of documents, and submission of bids or offers;

*h. Advertising time, including preparation of the notice, time to process the notice for prequalification, and time to receive responses.

*i. Are any waivers or special authorities necessary to proceed as planned.

*j. Review any other pertinent factors.

HB 14 & 15

2. Direct Contracts or Procurements by Other USG Agencies

For each procurement of commodities by a U. S. Government agency (including AID) identified in A above, specify:

*a. By what date(s) must commodities be delivered or installed at point of use?

*b. How long does it take to get the commodities from point of production of point of use (include both international and local transportation and typical customs clearance time)? Consider factors which might influence the delivery schedule (e.g., roads impassable during monsoon season, port backlog of 4 weeks, etc.).

*c. Are commodities in stock or made to order? If the latter, how long does it take to produce the commodities?

*d. Time to select a supplier and award a contract. Given the commodity and the likely USG procurement office, consider the need for advertising, preparation and distribution of an IFB or RFQ, submission of bids or offers, evaluation of bids or negotiation of offers, and contract award.

*May be presented in chart form.

*e. Time to prepare and issue a PIO/C. Include development of specifications, Mission and AID/W clearances, and if appropriate, signature by the host country.

*f. Are any waivers or special authorities necessary to proceed as planned?

*g. Review any other pertinent factors.

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*May be presented in chart form.

APPENDIX 3I

PAYMENT PROCEDURES

1. Disbursement Methods

AID disbursement can be made in several ways, some of which are suitable only for dollar disbursements, some primarily for local currency disbursements and some for both. In the description of the various disbursement methods which follows, the principal or exclusive use of each method for dollar or local currency disbursements is indicated. The disbursement procedures to be used for any specific project must be agreed with the Implementing Agency and set forth in an Implementation Letter. Different methods may be used to finance discrete project elements or different contracts within an element. Changes may be agreed upon as implementation proceeds. (Additional discussions of disbursement procedures are contained in Handbook 19.)

a. Direct Reimbursements. AID reimburses the B/G for foreign exchange or local currency payments already made from its own sources. The direct reimbursement method is the preferred method of financing for all types of assistance because it gives AID the opportunity for full review of the transaction before making payment. However, it is workable only if the B/G has sufficient financial resources to make the required payments and await reimbursement by AID. In some situations, AID may make an advance of funds or establish a revolving fund from which the B/G makes payment; replenishment of such funds then constitutes the reimbursement.

b. Direct Payments. Contracts, Purchase Orders and institutional grant agreements may provide for direct payment by AID against presentation of invoices and other specified documents,

without the use of a Letter of Commitment or other similar document. Such payment requests are normally accompanied by a B/G payment authorization statement and can be made in dollars or local currency. In certain instances, disbursements may be made to intermediate credit institutions or other B/G agencies without the presence of documentation to support each individual subsidiary transaction, provided that AID has satisfied itself of the existence of appropriate internal B/G controls and procedures, and that periodic reporting is effected to AID's satisfaction.

c. AID Direct Letters of Commitment to Suppliers or Contractors (Direct L/Com). AID may issue Direct Letters of Commitment to suppliers and contractors and make payments directly to them on receipt of invoices and supporting documentation. The direct letter of commitment method permits AID to review documents before making payments and avoids bank charges incurred through the use of bank letters of commitment. It is preferable to use direct letters of commitment for B/G contracts for services from U.S. firms, large bulk shipments or any other transactions where AID wishes to review documentation prior to payment. The Direct L/Com is used primarily for dollar disbursements.

d. AID Letters of Commitment to Banks (Bank L/Com). This method of financing utilizes established commercial banking channels for payments to suppliers and contractors. AID and a U.S. bank enter into an agreement under which the bank is authorized to make payments to contractors and suppliers for services and commodities

within the requirements set forth in the L/Com. Payments for purchases are arranged by the B/G through commercial Letters of Credit for which the L/Com provides the financial backing. The L/Com can be used for all dollar procurement under project assistance.*

e. Advance Payment. Federal policy endorses extending advances in reasonable amounts to non-profit educational or research institutions for experimental or development work. AID extends this policy to all non-profit organizations, including U.S. or international PVO's, U.S. educational and research institutions and international research institutions. AID is required to monitor cash management practices and performances of these institutions to ensure that federal funds are not maintained in excess of their disbursement needs. Advanced payments may also be used to profit making entities under certain circumstances. (See Handbook 1B, Chapter 15.) Cash advance payments should be made as close as is administratively feasible to actual disbursement needs of recipient organizations. There are two types of advance payment methods: (1) Periodic Advances by Treasury Check. A payment is made to a contractor/grantee upon its request prior to its own disbursement. The amount of periodic advances should be based upon an analysis of cash requirements of the contractor or grantee and should only be in amounts necessary to meet current disbursement needs. Advances to profit making concerns should be coordinated with M/AA/SER.

(2) Federal Reserve Letters of Credit (FRLC). Treasury regulations require use of the FRLC where (1) has or expects to have a

* Since bank letters of commitment require a fee for bank issuance and administration, and because control of disbursement by AID may be somewhat lessened, such letters of commitment should be restricted to usage where industry practices require bank letters of credit and/or where numerous letters of credit are expected to be issued.

continuing relationship with a recipient organization, usually an educational institution or non-profit organization, for at least one year; (2) annual payments aggregate at least $120,000; (3) the recipient has the ability to maintain procedures to disburse funds after they have been received; and (4) the recipient's financial management system meets the standards for fund control and accountability. Use of the FRLC method is stipulated in a clause in the grant, contract or other finance agreement; that clause commits the recipient organization to initiating cash drawdowns only when actually needed, to timely reporting of cash disbursements and balances, and to the imposition of the same standards of management upon any secondary recipient. AID typically uses the FRLC procedure for contract or grant financing non-profit organizations but may also use the procedures for profit making organizations in certain instances. AID does not use the FRLC procedure under loan agreements. The FRLC is not to be used when an element of local cost financing is involved except as described in Handbook 1, Supplement B, Chapter 15.

2. Fixed Amount Reimbursement

See Appendix J.

3. Payment Documentation

Documents required for payment under the disbursement methods described in paragraph 1, above, are discussed in paragraph C3d of Chapter 8 and Handbooks 11 and 19.

APPENDIX 3J

USE OF FIXED AMOUNT REIMBURSEMENT METHOD FOR LOCAL COST FINANCING

A. Policy

It is AID policy to use the fixed amount reimbursement method where the project structure and available qualified personnel in the Mission or from the host country meet the criteria discussed in Section C, below. While the criteria and preconditions for using the fixed amount reimbursement method may be difficult to meet, the benefits from the method are such that field Missions should seek to apply the method as often as possible. The "pure" Fixed Amount Reimbursement (FAR) Method described in Section B and the variations described in Section D are acceptable alternatives, even though not all the latter provide for the reimbursement of a fixed amount.

B. Definition of Fixed Amount Reimbursement Method

1. The primary distinction between this method and other disbursement methods is that the reimbursement is made for outputs rather than inputs; AID is, therefore, not concerned about the procedures used by the B/G in acquiring the inputs. It is merely concerned about the conformance of the outputs to previously agreed specifications or standards. In the "pure" FAR method, a further distinction from other disbursement procedures is that AID's payments are not based on actual cost. Rather, the amount of reimbursement is fixed in advance based upon reasonable cost estimate reviewed and approved by AID. Reimbursement is made upon physical completion of a project or subproject or a quantifiable element within the project. There are two essential aspects of this method:

a. The definition of a total project (subproject or a quantifiable element within a project), the preparation of cost estimates and an agreement in advance on the amount of AID's contribution, and

b. Reimbursement upon satisfactory completion of the agreed upon work.

2. Determination of Project Costs and Amount of AID Contribution

a. The recipient government and AID identify the project for which U.S. assistance is desired, together with estimated financial requirements for the total project as well as subprojects. The recipient government may include in it estimates of costs and amount for inflation for the expected time period for project implementation not to exceed two years, based on available information and study. The recipient government submits design specifications and cost estimates for review and approval by AID.

b. AID determines the amount of its contribution to the total project and the allocation of its contribution to specific subprojects and/or elements.

The amount of AID's contribution to the total project will be controlling. If unforeseen cost increases are encountered, these will be borne by the recipient. If costs are less than those estimated, AID's contribution will not be reduced.

3. Reimbursement Method

The recipient government using its own funds proceeds with implementation of the project. The AID Mission, with its own staff or consultants, monitors and conducts periodic inspections to satisfy itself that the project is being implemented in accord with agreed specifications in order to facilitate final inspection and acceptance. When the project, subproject or element has been completed, AID makes a final inspection and if acceptable AID reimburses the recipient the agreed amount for the project, subproject or element. (See: C. Criteria and Procedures for description of subproject or element.)

C. Criteria and Procedures

1. Based on AID experience to date it has been concluded that the fixed amount reimbursement method can be successfully utilized for many AID-financed projects, capital or noncapital. However, because of the financial burdens placed on the executing agency, the fixed amount reimbursement method seems to be the most appropriate for low cost, short-term projects (generally two years or less), or projects which can be made divisible into segments small enough to enable the executing agency to complete subprojects or quantified elements within the project, before receiving AID disbursement. Subprojects or elements should be generally of such nature that they may be completed on no more than 9 to 12 month from the date of initiation of work.

2. Subprojects or elements should be self-sustaining units that will be useful and desirable in their own right, regardless of whether other subprojects or elements are completed.

3. The reimbursement method lends itself particularly well to projects under which a large number of physically separate construction activities are to be carried out, or where a specific quantity of a commodity (such as textbooks) are to be produced.

4. Where AID disbursements are not related to identifiable goods or services but to other criteria, such as budgetary or administrative performance, the fixed amount reimbursement method is not applicable.

5. It is particularly import that the Mission assure itself that the recipient organization has sufficient qualified staff and experience to proceed with effective implementation of the project.

6. Use of the fixed amount reimbursement method requires that the Mission either through its own staff or through contract can provide periodic inspections of the project as well as certification that the subprojects or elements have been completed in accordance with plans and specifications. As AID reimbursement is based upon completed subprojects rather than actual costs, saving from the estimated costs will accrue to the recipient country or organization. It is, therefore, particularly important that attention be given to guaranteeing that the projects be implemented in accordance with agreed plans and specifications and that any possible collusion between implementing and inspection personnel concerning modifications in inputs be avoided.

7. An important criterion that must be met relates to the requirement that AID make a determination that a subproject or element has been completed prior to reimbursement. It is quite probable that there will be cases where this determination will not be appropriate due to a failure to meet previously agreed upon specifications. In such cases reimbursement must be refused. It is necessary that the Mission carefully evaluate the implications of such action on the relationships between AID and the host government. The host country should be fully apprised of the risk involved in the procedures that will be followed before deciding to use the fixed amount reimbursement system.

8. The fixed amount reimbursement method assumes that the recipient country and organization has sufficient financial resources to provide necessary working capital so that delays in reimbursement until completion of a subproject or element will not have a detrimental effect on project implementation. The Mission should thoroughly analyze the financial standing and resources and budgetary procedures of the recipient organization prior to recommending the use of the fixed amount reimbursement method.

9. The use of this method or of the variations described in Section D, below, should be discussed in the Project Paper. The paper should also explain the method which will be followed to secure local currency resources.

D. Alternative Procedures

There are a number of acceptable variations in reimbursement methods which may be adopted. While these variations differ in important aspects from the fixed amount reimbursement method, their use meets some of the objectives and advantages of the fixed amount reimbursement method. The variations include the following:

1. Advance of AID Funds

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

2. Fixed Amount Reimbursement with Escalation Negotiated Periodically

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

3. Percentage of Actual Cost Reimbursement

a. From time to time certain projects financed by AID will not permit completion of design specification at the outset so as to be able to establish reasonable cost estimates for individual subprojects.

* For example, a rural works project, which is labor intensive, includes a large number of small diverse subprojects (feeder roads, bridges, small irrigation, etc.) and where many of these subprojects are scattered over a wide geographic area, is a good case in point. Projects of this type do not lend themselves to "fixed amount" reimbursement because design specifications and cost estimates for individual subprojects are made during the life of the project. However, it is possible to identify design criteria and construction procedures which will be used and on which cost estimates will be based. Thus, while the fixed amount reimbursement procedure cannot be applied, AID could reimburse for a fixed percentage of actual costs of completed subprojects. Under these circumstances, the "actual costs" to be shared by AID should be either: 1) defined in the project agreement, which would set forth the elements of costs or, 2) specified as an amount in an Implementation Letter as soon as actual costs can be determined and, following which, would not be subject to revision. For the purposes of defining "actual costs", liquidated damage recoveries by the Host Country (HC), if any, during its administration of the construction activity, need not be netted against total allowable costs. It may be assumed that damages, agreed to in writing and in advance with independent contractors, would not exceed real economic losses suffered by the HC due to construction delays or other contractual nonperformance. Prior to reimbursement AID would require documentation and evidence which would verify actual costs expended for the subproject(s) and a certification by the Borrower that the subproject(s) has been completed in accordance with agreed on design specifications and other criteria. In addition, AID would provide for inspection of the facilities under construction and final inspection of the completed subproject(s). Such inspection could be done on a total or sample basis, depending on our assessment of the capability of the Borrower/implementing agency. *

b. At the outset, AID would agree to financing a fixed ratio; e.g., 50% of the actual cost of each subproject completed. If subproject costs increase, AID would be financing a larger amount than expected although the ratio would remain the same. Unless the Borrower is prepared to increase his contribution, cost escalation would lead to a reduction in the number of subprojects financed with AID resources, because AID's contribution to the overall project is fixed.

c. This alternative is not as attractive as the fixed amount reimbursement procedure; however, there are still a number of advantages in its use:

(1) AID's overall dollar commitment to the total project remains the same;

* Revised

(2) AID does not increase its percentage contribution to an individual subproject which will remain fixed; and

(3) AID only reimburses for completed subprojects. If the subproject is not completed, AID does not pay.

d. Each of the methods, of course, has advantages and disadvantages which should be considered in making a determination of the method to be follow.

APPENDIX 3K

ELEMENTS OF AN EVALUATION PLAN

A. Requirement for Plan

The essential elements for evaluation will be incorporated into all project designs from their earliest stages, thereby assuring that the design will permit and facilitate; (1) measurement of progress toward planned targets; (2) determination of why the project is or is not achieving its planned targets; and (3) determination of whether the project purpose continues to be relevant to the country's development needs.

B. Summary of Evaluative Elements

The following is a brief summary of the evaluative elements which are to be included in a project design to permit a subsequent meaningful evaluation. This guidance applies both to loan-financed and grant-financed projects and is to be used, with modifications, for sector and program activities. Elements described *in* B2, B3, and B4 below will be automatically included in the logical framework matrix (discussed in Appendix 2F). *Elements described in B1 and B5 must be explicitly spelled out elsewhere in the Project Paper.*

1. Baselines: Every project plan must contain (or reference another document which contains) definite baseline data; i.e., a statement of pertinent conditions at the time project begins or as soon thereafter as practical. There are two different but related kinds of baseline data to be considered:

a. Project Specific Baseline: The level of activity (or condition) which the project is intended directly and immediately to change; e.g., in a livestock production project, the project specific baseline might be the number, size, quality, and health of livestock presently produced. In an education sector loan, it could be the size, quality, productivity, and other identifying features of the education establishment and the pertinent data on utilization of its outputs (i.e., students and research.)

b. Socioeconomic Baseline: The status of socioeconomic activity in the area where the project will operate; e.g., in a livestock project, the socioeconomic baseline would include the income, savings, consumption, land availability and ownership, and other socioeconomic factors in the immediate area affected by the project.

2. Targets

a. Statements of targets may be quantitative or qualitative but are to have three characteristics: they are to be stated in explicit and precise terms; they are to be stated in finite terms; they are to be stated in terms that are objectively verifiable irrespective of whether these terms are quantitative or qualitative. Quantitative targets are preferable where they can be formulated.

B2

b. Targets at the output, project purpose, and sector/program goal levels are to have a hypothesized, causative relationship to each other which is susceptable to verification by systematic evaluation and which presents a strong probability of occurring.

c. Where two targets coexist at the same level (e.g., purpose level), their relationship must be clearly defined. An example is a project purpose to increase agricultural production while at the same time expanding rural employment opportunities. It is acceptable to have multiple targets at the same level only if the relationship (almost invariably a trade-off) between the targets is explicitly defined so as to permit subsequent measurement and verification of each and of the assumed relationship.

d. It is not permissable to compress a hierarchical, means-end relationship into a one-sentence statement which purports to be a single objective but which is actually a pair of objectives. An example is: to increase wheat production in order to increase farmer income. The two objectives must be separately stated, their causative relationship defined, and each must have its own independent progress indicators. Most Missions solve this type of analytical problem simply by adding a horizontal row to the logical framework matrix, splitting the statement into separate levels, with separate targets, indicators, and assumptions for each level. (See pages 8-9 of the AID publication, Logical Framework - Modifications Based on Experience.)

3. Progress Indicators

a. To measure progress from the baseline conditions to the planned targets requires the use of progress indicators. It is important that these indicators be formulated at the project design stage so that change can by systematically observed and the data required to support the indicators can be routinely collected.

b. Progress indicators are to be subjected to four tests:

(1) Plausibility -- means that the indicator measures change which varies directly with progress toward planned targets.

(2) Independence -- the indicators at the purpose level must be separate and independent of the indicators at the output levels. This independence is also required in the purpose-to-goal linkage.

(3) Objectively verifiable -- the indicator must present evidence which has the same meaning for both a skeptic and an advocate.

(4) Targeted -- indicators must contain a magnitude, a target audience/area, and a time when the desired change is to be observable; e.g., increase from 320 graduates from Atlantis Institute of Oceanography in June 1975 to 650 graduates from AIO in June 1977.

B

4. Planning Assumptions

External factors outside the scope of the project design, but important to the success of the project, are to be stated in the form of assumptions. The statement of these external factors reflects an attempt to reduce and codify the uncertainty in which the project will operate. Planning assumptions are to be comprehensive; i.e., they are to include a discussion of the critical external factors which could have a significant influence on the achievement of the project targets. The assumptions (or external factors) are to be stated in explicit and precise terms. Where feasible, they are to be stated in operational terms so that appropriate action might be taken to increase the probability of the assumption occurring. Where possible, the assumptions are to be incorporated into the project design to reduce uncertainty to the lowest possible level. The statement of the assumption should be the result of some prior study or analysis and should have a strong probability of occurring. This latter point is critical; if there are four assumptions governing the achievement of project purpose and these four assumptions have 0.8, 0.8, 0.6, and 1.0 probabilities of happening, then the cumulative effect of these four assumptions is the product of the four; i.e., 0.8 x 0.8 x 0.6 x 1.0 = 0.38.

5. Causative Factors

a. If the program or project is not achieving its planned targets, the evaluator will search for casual factors. These will either be external causal factors (such as those discussed under paragraph B4, Planning Assumptions, above) or internal causal factors inherent in the design of the project. Included in this latter category are such design elements as:

(1) The project strategy.

(2) The kind and level of sophistication of the project technology.

(3) The kind, quality, and quantity of resource inputs.

b. These elements are to be spelled out explicitly in the project design documentation since the evaluator may later need to consider their causative influence as he seeks to explain shortcomings and deviations from the original plan.

C. Arrangements for Evaluations

In addition to these evaluation elements, the evaluation plan should spell out the actual arrangements for evaluation. These would include:

1. Provision, consistent with the magnitude and importance of the project, for collection and recording of baseline and progress data to support the progress indicators and design assumptions.

C

2. Description of the scope, depth, timing and other characteristics of the evaluations to be conducted during the life of the project.

3. In the case of projects which are to some degree experimental, provision for the collection of data from a control area/group to permit comparative measurement of change between the project and the control.

D. Assistance in Evaluation

Methodological and other assistance in any of the areas described above is available from the Geographic Bureaus Evaluation Office or the PPC Central Evaluation Office (PPC/ E.)

APPENDIX 3L

GUIDANCE FOR SECTION 611(e) CERTIFICATION ON CAPACITY TO MAINTAIN AND UTILIZE

Section 611(e) of the Foreign Assistance Act of 1961, as amended ("FAA"), provides:

> "(e) In addition to any other requirements of this section, no assistance authorized under titles I, II, or IV of chapter 2 or chapter 4 of part I of this Act shall be furnished with respect to any capital assistance project estimated to cost in excess of $1,000,000 until the head of the agency primarily responsible for administering part I of the Act has received and taken into consideration a certification from the principal officer of such agency in the country in which the project is located as to the capability of the country (both financial and human resources) to effectively maintain and utilize the project taking into account among other things the maintenance and utilization of projects in such country previously financed or assisted by the United States."

This applies to "capital assistance projects" funded under the functional assistance categories of Sections 103 through 107 of the FAA, and under the Economic Support Fund , Sections 531-40 of the FAA.

For purposes of this requirement, a capital assistance project is the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance, including related advisory, managerial or training services, estimated to cost in excess of $1,000,000.

The "principal officer . . . in the country in which the project is located" is normally the Mission Director, AID Representative, or AID Affairs Officer. If there is no Mission Director, AID Representative or Affairs Officer in the country concerned, or if the Chief of a Regional Affairs Office, or equivalent, is in fact the responsible and informed officer for the country concerned, the latter individual must make the certification.

Delegation of Authority No. 75, as amended, delegated to certain Assistant Administrators power to receive and take into consideration such certifications with respect to projects they have authority to authorize.

Each certification, which should not exceed a page in length, should identify the project, employ a sentence or two each (a) to describe it, (b) to discuss the financial and human resources capability of the country to maintain and utilize the project, and (c) to take into account among other things the maintenance and utilization

of projects in the country previously financed or assisted by the United States. It will conclude with a certification as to the capability of the country (both financial and human resources) to effectively maintain and utilize the project.

APPENDIX 3M
AID PROJECT STATUTORY CHECKLIST

Introduction

The statutory checklist is divided into two parts:
3M(1) - Country Checklist; and 3M(2) - Assistance Checklist.

The Country Checklist, composed of items affecting the eligibility for foreign assistance of a country as a whole, is to be reviewed and completed by AID/W at the beginning of each fiscal year. In most cases responsibility for preparation of responses to the Country Checklist is assigned to the desk officers, who would work with the Assistant General Counsel for their region. The responsible officer should ensure that this part of the Checklist is updated periodically. The Checklist should be attached to the first PP of the fiscal year and then referenced in subsequent PPs.

The Assistance Checklist focuses on statutory items that directly concern assistance resources. The Assistance Checklist for FY 1991 includes items previously included under separate "project assistance," "nonproject assistance," and "standard item" checklists. The Assistance Checklist should be reviewed and completed in the field, but information should be requested from Washington whenever necessary. A completed Assistance Checklist should be included with each PP; however, the list should also be reviewed at the time a PID is prepared so that legal issues that bear on project design are identified early.

The Country and Assistance Checklists are organized according to categories of items relating to Development Assistance, the Economic Support Fund, or both.

These Checklists include the applicable statutory criteria from the Foreign Assistance Act of 1961 ("FAA"); various foreign assistance, foreign relations, anti-narcotics and international trade authorization enactments; and the FY 1991 Foreign Assistance Appropriations Act ("FY 1991 Appropriations Act").

These Checklists do not list every statutory provision that might be relevant. For example, they do not include country- specific limitations enacted, usually for a single year, in a foreign assistance appropriations act. Instead, the Checklists are intended to provide a convenient reference for provisions of relatively great importance and general applicability.

Prior to an actual obligation of funds, Missions are encouraged to review any Checklist completed at an earlier phase in a project or program cycle to determine whether more recently enacted provisions of law included on the most recent Checklist may now apply. Because of the reorganization and consolidation of checklists reflected here, such review may be particularly important this year. Space has been provided at the right of the Checklist questions for responses and notes.

NOTE: The FY 1991 statutory checklists have been fundamentally reorganized. Previous checklists for "countries," "project assistance," "nonproject assistance" and "standard items" have been consolidated into just two checklists: (1) the Country Checklist, which includes items relating to country eligibility; and (2) the Assistance Checklist, which includes issues relating to assistance resources. Each checklist is subdivided according to items applicable to: (A) Development Assistance only, (B) Economic Support Funds only, or (C) both Development Assistance and Economic Support Funds.

3M(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. Narcotics

a. **Negative certification** (FY 1991 Appropriations Act Sec. 559(b)): Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

b. **Positive certification** (FAA Sec. 481(h)). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement?

(2) has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification),

that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (b) the vital national interests of the United States require the provision of such assistance?

c. **Government Policy** (1986 Anti-Drug Abuse Act of 1986 Sec. 2013(b)). (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one: (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

2. **Indebtedness to U.S. citizens** (FAA Sec. 620(c): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

3. **Seizure of U.S. Property** (FAA Sec. 620(e)(1)): If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

4. **Communist countries** (FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545): Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that

such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

5. **Mob Action** (FAA Sec. 620(j)): Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?

6. **OPIC Investment Guaranty** (FAA Sec. 620(l)): Has the country failed to enter into an investment guaranty agreement with OPIC?

7. **Seizure of U.S. Fishing Vessels** (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5): (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?

8. **Loan Default** (FAA Sec. 620(q); FY 1991 Appropriations Act Sec. 518 (Brooke Amendment)): (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds?

9. **Military Equipment** (FAA Sec. 620(s)): If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

10. **Diplomatic Relations with U.S.** (FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

11. **U.N. Obligations** (FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

12. **International Terrorism**

a. **Sanctuary and support** (FY 1991 Appropriations Act Sec. 556; FAA Sec. 620A): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

b. **Airport Security** (ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?

13. **Discrimination** (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

14. **Nuclear Technology** (FAA Secs. 669, 670): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

15. **Algiers Meeting** (ISDCA of 1981, Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

16. **Military Coup** (FY 1991 Appropriations Act Sec. 513): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

17. **Refugee Cooperation** (FY 1991 Appropriations Act Sec. 539): Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

18. **Exploitation of Children** (FY 1991 Appropriations Act Sec. 599D, amending FAA Sec. 116): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services?

B. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")

1. **Human Rights Violations** (FAA Sec. 116): Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

2. **Abortions** (FY 1991 Appropriations Act Sec. 535): Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

C. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

1. **Human Rights Violations** (FAA Sec. 502B): Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

3M(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. **Host Country Development Efforts** (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

3. **Congressional Notification**

a. **General requirement** (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

b. **Notice of new account obligation** (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

c. **Cash transfers and nonproject sector assistance** (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

4. **Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

5. **Legislative Action** (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

6. **Water Resources** (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for guidelines.)

7. **Cash Transfer and Sector Assistance** (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

11. **Local Currencies**

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

c. **Separate Account** (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has AID (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of AID and that government to monitor and account for deposits into and disbursements from the separate account?

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

(3) Has AID taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

12. **Trade Restrictions**

a. **Surplus Commodities** (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

b. **Textiles (Lautenberg Amendment)** (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

14. **PVO Assistance**

a. **Auditing and registration** (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of AID, and is the PVO registered with AID?

b. **Funding sources** (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

15. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and AID LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

16. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through AID policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will AID specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

17. **Women in Development** (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

18. **Regional and Multilateral Assistance** (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

19. **Abortions** (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

b. Will any funds be used to lobby for abortion?

20. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

21. **U.S.-Owned Foreign Currencies**

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

22. **Procurement**

a. **Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

b. **U.S. procurement** (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

h. **U.S. air carriers** (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

i. **Termination for convenience of U.S. Government** (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

j. **Consulting services** (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

k. **Metric conversion** (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through AID policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will AID specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

l. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

23. **Construction**

a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

24. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

25. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

26. **Narcotics**

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

27. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?

28. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

29. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities?

30. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?

31. **Military Personnel** (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?

32. **Payment of U.N. Assessments** (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues?

33. **Multilateral Organization Lending** (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?

34. **Export of Nuclear Resources** (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?

35. **Repression of Population** (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

36. **Publicity or Propoganda** (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

37. **Marine Insurance** (FY 1991 Appropriations Act Sec. 563): Will any AID contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

38. **Exchange for Prohibited Act** (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment)** (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any

testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

2. **Tied Aid Credits** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

5. **Economic Development** (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

6. **Special Development Emphases** (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

7. **Recipient Country Contribution** (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

8. **Benefit to Poor Majority** (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

9. **Abortions** (FAA Sec. 104(f); FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 535):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?

10. **Contract Awards** (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

11. **Disadvantaged Enterprises** (FY 1991 Appropriations Act Sec. 567): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

12. **Biological Diversity** (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

13. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) & (g)):

a. **AID Regulation 16:** Does the assistance comply with the environmental procedures set forth in AID Regulation 16?

b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest

clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

d. **Sustainable forestry:** If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

e. **Environmental impact statements:** Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable AID regulations requiring an environmental impact statement for activities significantly affecting the environment?

14. **Energy** (FY 1991 Appropriations Act Sec. 533(c)): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

15. **Sub-Saharan Africa Assistance** (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) to be provided in a manner that takes into account, during the planning process, the local-level perspectives of the rural and urban poor, including women, through close consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) to be implemented in a manner that requires local people, including women, to be closely consulted and involved, if the assistance has a local focus; (e) being used primarily to promote reform of critical sectoral economic policies, or to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities; and (f) to be provided in a manner that, if policy reforms are to be effected, contains provisions to protect vulnerable groups and the environment from possible negative consequences of the reforms?

16. **Debt-for-Nature Exchange** (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

17. **Deobligation/Reobligation** (FY 1991 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

18. **Loans**

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

19. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

20. **Agriculture, Rural Development and Nutrition, and Agricultural Research** (FAA Secs. 103 and 103A):

a. **Rural poor and small farmers:** If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

b. **Nutrition:** Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

c. **Food security:** Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

21. **Population and Health** (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

22. **Education and Human Resources Development** (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

23. **Energy, Private Voluntary Organizations, and Selected Development Activities** (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

c. research into, and evaluation of, economic development processes and techniques;

d. reconstruction after natural or manmade disaster and programs of disaster preparedness;

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?

3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).)

4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1991, this provision is superseded by the separate account requirements of FY 1991 Appropriations Act Sec. 575(a), see Sec. 575(a)(5).)

5. **Cash Transfer Requirements** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)). If assistance is in the form of a cash transfer:

a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?

b. **Local currencies:** Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has AID entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of AID and that government to monitor and account for deposits and disbursements?

c. **U.S. Government use of local currencies:** Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

d. **Congressional notice:** Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

3M(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602(a). Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

4. FAA Sec. 604(e). If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

6. FAA Sec. 603. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

7. FAA Sec. 621(a). If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

9. FY 1990 Appropriations Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

10. FY 1990 Appropriations Act Sec. 524. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

11. Trade Act Sec. 5164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2 (and as implemented through AID policy). Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will AID specifications use metric units of measure from the earliest programmatic stages, and from the earliest

documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

12. FAA Secs. 612(b), 636(h); FY 1990 Appropriations Act Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

13. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

14. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

B. CONSTRUCTION

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used?

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP), or does assistance have the express approval of Congress?

C. OTHER RESTRICTIONS

1. FAA Sec. 122(b). If development loan repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

4. Will arrangements preclude use of financing:

a. FAA Sec. 104(f); FY 1990 Appropriations Act under heading "Population, DA," and Secs. 525, 535. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion?

b. FAA Sec. 483. To make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

c. FAA Sec. 487. To or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? (Section 487 requires the taking of "reasonable steps to ensure that assistance" (under the FAA and the Arms Export Control Act) is not provided in the foregoing cases.)

d. FAA Sec. 620(g). To compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?

e. FAA Sec. 660. To provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

f. FAA Sec. 662. For CIA activities?

g. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?

h. FY 1990 Appropriations Act Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?

i. FY 1990 Appropriations Act Sec. 505. To pay U.N. assessments, arrearages or dues?

j. FY 1990 Appropriations Act Sec. 506. To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?

k. FY 1990 Appropriations Act Sec. 510. To finance the export of nuclear equipment, fuel, or technology?

l. FY 1990 Appropriations Act Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

m. FY 1990 Appropriations Act Sec. 516; State Authorization Sec. 109. To be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

5. FY 1990 Appropriations Act Sec. 574. Will any AID contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

6. FY 1990 Appropriations Act Sec. 582. Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

APPENDIX 3N

INSTRUCTIONS FOR PREPARATION OF PROJECT PERFORMANCE TRACKING NETWORK CHART*

A. Introduction

1. The Project Performance Tracking Network (PPT) is a tool for monitoring the actual versus planned performance of AID financed projects. The basic approach involves: (a) preparation of a network chart at the project design stage which relates performance indicators to each other and to time, (b) updating the network periodically, and (c) utilization of the chart as a basis for project monitoring and reporting. The objectives of the PPT network are to contribute to and improve the project design process; provide a monitoring tool for the project manager; facilitate Mission (or Office for AID/W projects) project reporting; and provide project histories for use by project designers. The PPT may be used for both loan and grant project assistance activities in the field and for many AID/W-administered projects.

2. The PPT network or a similar planning/scheduling tool should be included in the PP to improve decision-making and review. The PPT relates to the Logframe and serves to identify implementation problems. Being solution oriented, it helps to show dimensions of the problems. A set of interrelated performance indicators (PI's) agreed upon by the Mission and host country lays the basis for the identification of delays and secondary problems arising from failure to meet a PI. The network can therefore be used for analyzing alternative solutions.

3. The project monitoring/reporting system, as agreed to with the B/G, should use the PPT network and progress indicators as a basis for measurement and decision making.

* Use of the PPT network is optional; use of it or a comparable planning/scheduling tool is, however, recommended to improve decision making and implementation management.

B. Summary

1. The Project Performance Network may be begun when an idea is little more than a "problem and a proposed solution" or when the project is well advanced. In the first case it is assumed that the project manager is operating at roughly the Project Implementation Document (PID) stage of project design and from there will develop the various elements; i.e., project structure, Logframe, PPT Network, implementation plan, financial plan, and evaluation plan, in a coordinated effort using each to reflect on and improve the others. It is possible that relatively little research has been done and that the search for information will be part of the design effort, or that similar projects in the past have created a solid information base of project structure and "lessons learned." All pertinent information should be utilized in project design, exploring alternatives to and within the project and weighing resource costs. This first case, then, calls for an open, exploratory approach in which there is continuous "feedback" as the design develops.

2. In the second case, where the project design is well advanced, the external alternatives should have already been explored and the emphasis will be more on internal project structure and establishing the natural "flow and balance" of the project. The same need for "feedback," however, continues and the project should develop as a dynamic design as it evolves in more specific detail through Project Paper stage.

3. The following guidance outlines the general sequence for preparing a network chart. The chart should be a joint product of AID and Borrower/Grantee project personnel. The most important elements of the network are that it is an accurate representation of the project, and that it is used by AID and B/G personnel to manage the project. The following techniques should be used as a guide, but adapted freely to produce the most useful result. The basic steps are:

-- Select the most practicable indicators of performance for the project.

-- Estimate the date by which each event should take place if the project is to be completed as scheduled.

-- Show how events relate to each other on a chart in a kind of "road map" for tracking performance.

-- Periodically review and discuss this planned sequence and schedule as the project proceeds, recording changes and redesigning remaining portions to correspond to management plans and decisions.

-- Use the network for management, monitoring and evaluating purposes as appropriate.

C. Preparation of Network

1. Select the most critical indicators of performance for the project.

a. The first action is to identify the basic elements of the project. If a Logframe or a Program Evaluation Review Technique/Critical Path Method (PERT/CPM) chart has been prepared, this step may have been done. If a Logframe or PERT/CPM chart has not been prepared, the network can be developed along with either or both of them. One way to begin is to write down, briefly and at random, every idea that comes to mind about the project without structuring them or judging their worth. Just use the ideas as a way to explore the project and to expose all possible thoughts about it, getting new ideas and building on them for other new and different ones. This is part of the "brainstorming" look at the project and should be a freewheeling, open kind of action. It can be done among a few or with all participants for maximum exploration and opening up new ideas. The second part of this exploration is to evaluate and structure the ideas, eliminating, combining and placing them in logical groups or relationships. This should give a total kind of view of the project for beginning the network, Logframe, or PERT/CPM.

b. The second action is to survey and select those events of circumstances which will most realistically show the progress of the project. Here the Logframe and the network tie closely together, with the Logframe focusing on the Goal, Purpose, Outputs and

Inputs, and the network searching out the best measures of performance whatever they may be. (It is not necessary to complete a PERT/CPM chart, but, if that is also being done, it will be emphasizing the events which should occur and the time necessary to accomplish each in turn. (Reference may be made to A.I.D. training materials, including the manual entitled PERT/CPM/LOB Project Management Systems for Economic Development put out by AID in January 1975.) Performance indicators could be described as "strategic control points" where performance can be measured. They should be "project-specific," that is, selected as important for the situation of the project, and not be "standardized." Early in the project they may be critical inputs and, as the project moves along, they may be intermediate outputs; or final outputs; further along the line, they may relate to end-of-project conditions. Another place to look for possible performance indicators is in the "Assumptions" section of the Logframe. While assumptions may be outside of the control of the project manager, they may still be critical to success of the project and so indicate a necessary place to check on total performance. Some indicators may be completely outside of the project but may be important to monitor; e.g., related events in other projects, host country or other donor actions, significant political, financial or personnel happenings. In general, anything which affects and describes the probability of success of the project should be considered.

c. There is one other category of events which should be included; they relate to AID or host country internal systems and needs. Most obvious are the evaluations performed under the Program Evaluation System. Evaluations should be scheduled as important events and timed to the specific needs of the project. Other indicators to be considered here may be special host country requirements; e.g., passage of new legislation; special bureau or agency actions, e.g., allocation of incremental funding, etc.

d. Having identified important events, select those PI's which give the best picture of performance for the whole project. For complex projects, it may require a relatively large number of PI's. (Experience indicates that even complex projects can be expressed in 25 or 30 PI's.) A simple project may require only 6 or 7.

2. Estimate the date by which each PI becomes critical to the successful completion of the project.

It is essential here to note that the "critical date" is not the "expected date" as in a PERT/CPM chart, but is the date when failure to achieve would indicate that the planned project purposes and goals are threatened and that attention to the problem by higher management is needed. It should be the latest date at which project management can accomplish the event. To illustrate, a project manager might "expect to get" in normal events a minister's signature by January 30, but, in the extreme, only "have to get" it by June 30 to prevent serious disruption of the overall project. (A PERT/CPM chart will still use the January 30 date for normal operational scheduling.) A tentative critical date should be assigned to each PI.

3. Show how they relate to each other on a rough chart in a kind of "road map" for tracking performance.

a. At this point, all of the previous work should be brought together in a single visual chart. This does not need to be professional in appearance. One simple way is to take a large sheet of paper, such as financial columnar paper or wrapping paper, and mark off spaces for the years of the project from left to right, with several inches for each year. To make it easy to follow, the network drafter might number in the months. If each PI is written on a small piece of paper, possibly a 3" x 5" card, it can then be placed near its critical date, keeping related PI's roughly in line across the chart. It may be advisable to put the major elements of the project near the center of the sheet and the minor ones above and below, but the location is not particularly important at this point. Interdependence of events should then be indicated as in a CPM type of chart. This is a rough picture of how the project "hangs together" and it should help participants visualize the chronological arrangement of progress indicators. Once the pattern is established, it may be helpful to copy the chart onto fresh paper with some changes in location to minimize dependency lines crossing each other, etc. Again, however, remember this is just a working chart.

b. The flow of financial resources may now be estimated. This should be expressed as planned level(s) of expenditures for sub activities at certain key dates. Estimates of the level(s) of sub activity expenditures may be made at fixed dates; e.g., quarterly or semi-annually or when a PI is to be accomplished. Expenditure levels should not be considered as PI's. They are seldom "direct" measures of performance in themselves but, when viewed in conjunction with PI's, will give a more complete picture of progress, particularly if some sub activities are out of line with budget estimates.

Once the chart is drafted, the PI's can be numbered, beginning with "one" at the start and sequencing by date. When more than one CPI occurs on the same date, look for a logical sequence or merely go from top to bottom in sequence. Once numbered, a brief description of each PI can be made, so that others reviewing the chart can understand the nature and signfificance of the PI. Include any discussion of target figures and acceptable levels of accomplishment, methods of verification, etc., but the description should be kept as brief as possible, hopefully, so that the entire description "subchart" can be presented on one page.

The completed chart should generate positive answers to the following questions:

> Would a reasonable, casually knowledgeable outsider understand this project?
> Do the chart and indicators express a good design for accomplishing the purpose of the project? Do the indicators express the sense of the project? Does the chart "stand by itself" as a complete picture? Does it make sense?

D. Sample Forms and Illustrative Examples

Attached are two illustrative examples and copies of blank forms for use by drafters. Use of these forms is optional.

Exhibit #1

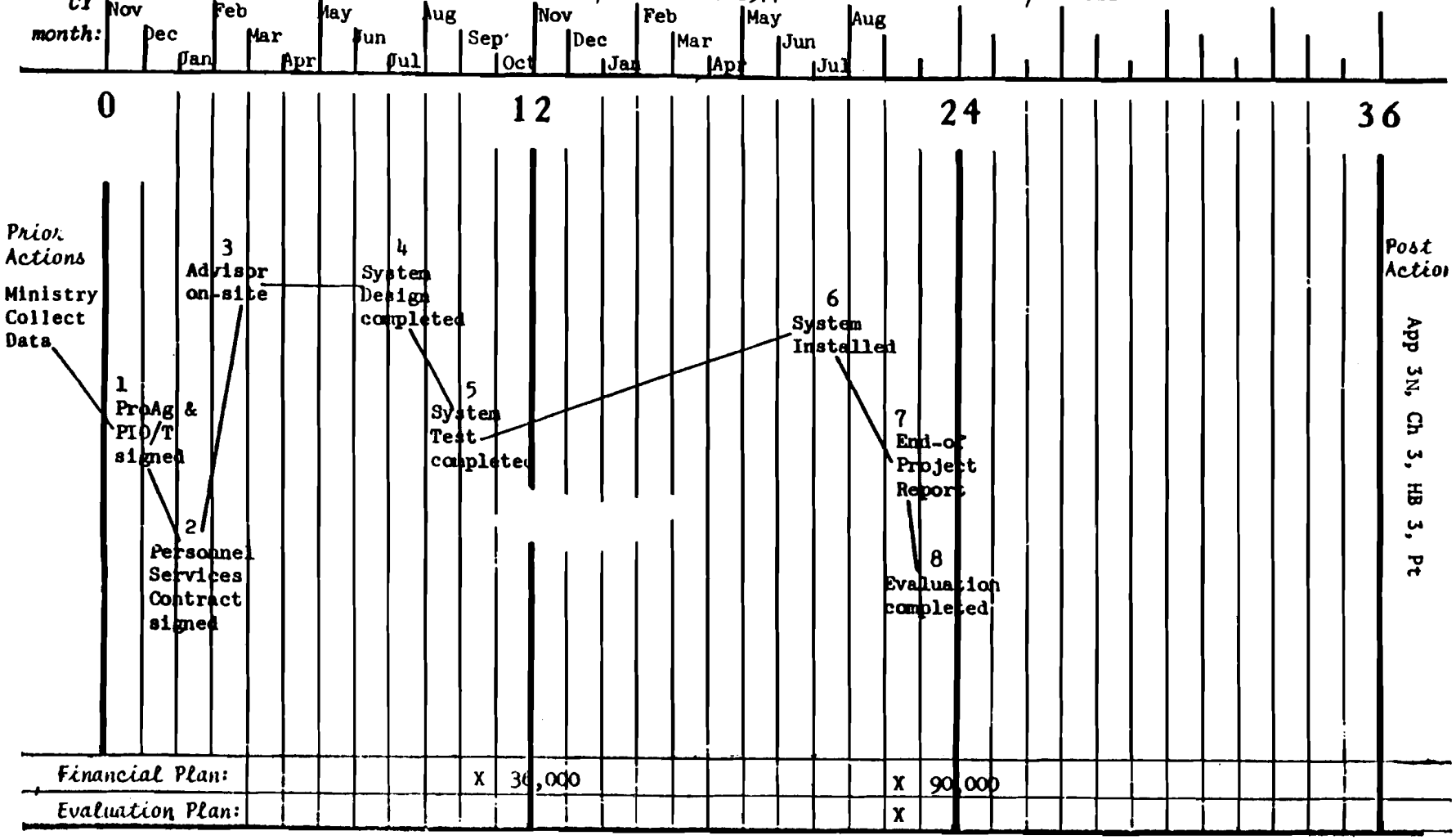
Country:	Project No:	Project Title:	Date:		Apprvd:
Somewhere	686-012	New System for Ministry X	5/3/77	/X/ Original / / Revision #	

CPI DESCRIPTION

1. 11/15/77 ProAg & PIO/T signed
2. 1/30/78 Personnel services contract signed
3. 2/28/78 Advisor on-site - occupying office in ministry building
4. 7/30/78 System design completed - preliminary approval of minister received
5. 9/30/78 System test completed
6. 7/30/79 System installed - at least 3 departments using system - schedule written for all departments to begin use of system by 7/1/78
7. 8/15/79 End-of-Project Report submitted
8. 8/30/79 Evaluation completed

Exhibit #1

Country:	Project No:	Project Title:	Date:		
Somewhere	686-012	New System in X Ministry	5/3/75	/X / Original / / Revision #	DPR appr J Smith



PROJECT PERFORMANCE NETWORK

EXHIBIT #2

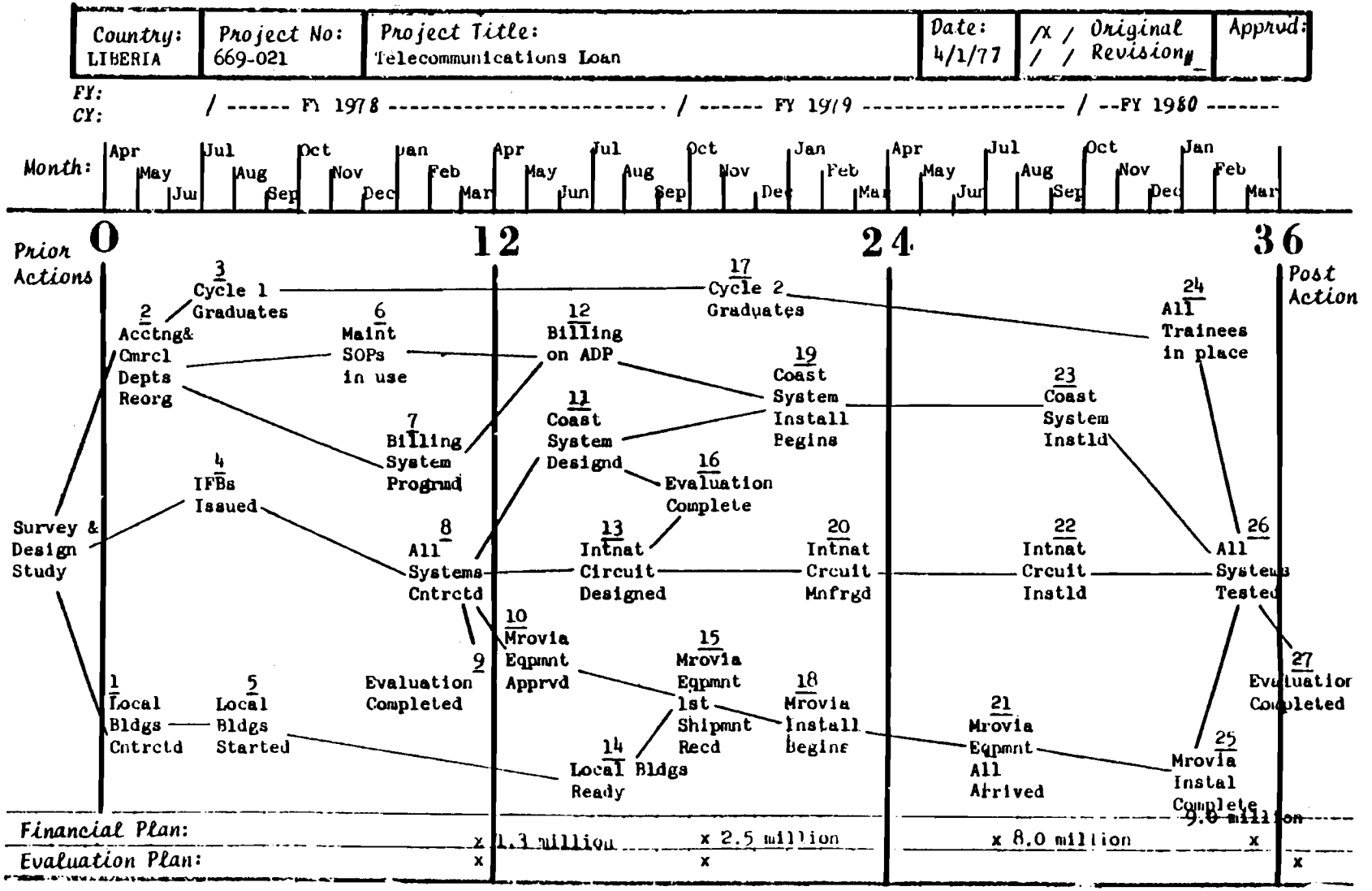
Country:	Project No.	Project Title:	Date:	/X/ Original / / Revision #	Apprvd:
LIBERIA	669-021	Telecommunications Loan	4/1/77		

CPI DESCRIPTION

1. 4/15/77 Contract signed for construction of warehouse and Paynesville Exchange Bldg.
2. 5/15/77 Reorganization of Accounting and Commercial departments completed
3. 7/30/77 First cycle of in-country training completed
4. 7/30/77 Invitation-for-Bids issued on 3 systems
5. 8/15/77 Warehouse and Exchange buildings started
6. 12/30/77 Standard Operating Procedures for maintenance and spare parts operations in use
7. 1/30/78 Programming and auxiliary procedures for computerized billing completed
8. 2/15/78 Contracts signed for three systems
9. Evaluation completed
10. 4/30/78 Design and specifications for Greater Monrovia system approved
11. 6/15/78 Design of the Coast System approved
12. 6/30/78 Computerized billing operating successfully
13. 7/15/78 International circuit system design approved
14. 7/31/78 Warehouse & Exchange buildings ready for occupancy
15. 10/15/78 First shipment of equipment for Greater Monrovia system
16. 10/30/78 Evaluation completed
17. 11/15/78 Second cycle of in-country training complete ___ trainees now on job
18. 1/15/79 Installation of Greater Monrovia equipment begins
19. 1/15/79 Coastal System installation begins
20. 2/28/79 All equipment for the International Circuit manufactured and tested at plant
21. 7/30/79 All equipment for Greater Monrovia system arrived
22. 9/30/79 All equipment for International Circuit installed
23. 9/30/79 All equipment for Coastal System installed
24. 1/30/80 At least ___ trainees now on jobs in the system
25. 2/15/80 Greater Monrovia installation of equipment complete
26. 3/31/80 All systems tested and certified
27. 5/15/80 Evaluation completed

EXHIBIT #2

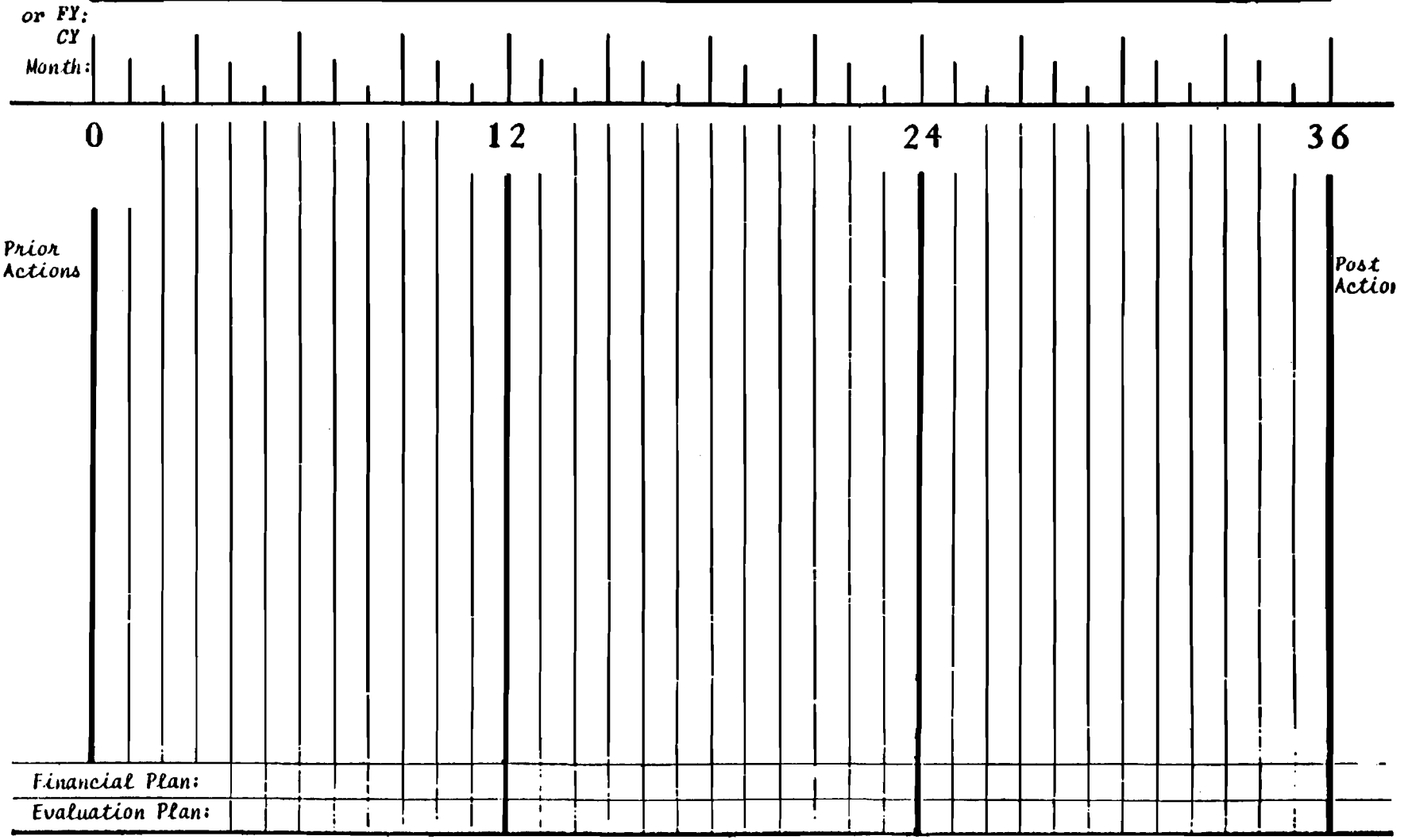
Country:	Project No:	Project Title:	Date:	/X/ Original / / Revision #	Apprvd:
LIBERIA	669-021	Telecommunications Loan	4/1/77		



PROJECT PERFORMANCE NETWORK

PPT FORM
(May be Expanded as Appropriate)

Country:	Project No:	Project Title:	Date:	/ / Original / / Revision #_	PPT appr



PROJECT PERFORMANCE NETWORK

PPT FORM

Country:	Project No:	Project Title:	Date:	/ / Original / / Revision #	Apprvd:

CPI DESCRIPTION

APPENDIX 3-0

ANALYSIS OF ENERGY USE AND PRODUCTION IN PROJECTS

AID's procedures for examining the appropriateness, efficiency and cost implications of energy use and/or production in projects call for a sequential assessment of the energy elements of the project. In some projects it is only necessary to carry out the first step in this sequence. When the first step in the sequence demonstrates that only human energy will be consumed in the project, the remaining steps need not be undertaken. In projects that use physical energy resources and/or processes for converting energy into secondary forms, such as electricity, AID expects that additional analyses of the appropriateness, efficiency and cost implications of those uses and processes will be undertaken as part of a project design effort.

The sequence in which a project energy analysis is to be undertaken is as follows:

--Review/analysis of the energy resources and/or processes to be used by the project;

--Analysis of the efficiency, appropriateness and cost implications of specific technologies employed by the project (i.e., equipment and processes) to utilize energy resources and/or create secondary forms of energy;

--Analysis of the overall appropriateness, efficiency and cost implications of energy use and/or production in the project (subsuming all technologies considered in the prior analysis and supplementing these analyses with considerations of energy use that do not involve specific technologies).

1. Review/Analysis of the Energy Resources/Process Used by a Project

The first step in an analysis of energy use and production implied by a project design is the developmet of a list of the types of energy used or produced by a project. The list

developed at this stage of the analysis is intended to distinguish those projects which use only human energy from others which involve the use of physical energy resources and/or its transformation into secondary forms of energy. In addition, where projects do use physical energy resources or processes that produce secondary forms of energy, the first step of the energy analysis is designed to identify the specific energy resources and processes the project requires. It also identifies points where project designers have options concerning either the energy resources that are employed or the processes used to convert an energy resource into a secondary form of energy.

While there are a number of approaches that could be used to develop a list of energy resources and processes used in a project, AID expects that a very simple methodology will suffice in most cases, at least for purposes of making a preliminary distinction between projects that do or do not use physical energy resources and processes for converting them to secondary forms of energy. One illustrative approach for making a preliminary listing of the energy resources consumed and/or produced by a project is to create a diagram of the project which can then be used to identify the points in the project where energy is consumed/produced.

Project Inputs → Project Outputs → Project Purpose → Project Goal

In this basic diagram, the main elements of which can be taken from a project's Logical Framework, each set of words and each arrow represents a point in the project where energy may be used, converted and/or produced. Using the specific details of the project that is being designed, a list can be created which will in general contain energy resources under list items that reflect the words of the diagram and energy processes will appear under list items that reflect the arrows of the diagram. The distinction between the words of the diagram and the arrows is consistent with the way in which most project Logical Frameworks discuss resources and results and hypothesize or assume processes.

In general, it is expected that the identification of energy resource use and energy creating processes will tend to focus on project inputs and outputs and on the arrow that connects them. A major exception to this general expectation involves

projects where one of the specific elements of the project, e.g., an output, focuses on the creation and/or distribution of a secondary form of energy, such as a community irrigation system or an approach for electrifying community enterprises and houses. In these cases, AID expects that the listing of energy resource use and processes will also involve the identification of key elements at the project purpose level and/or in terms of the arrow that connects outputs to the project purpose. In making lists of this type, project design teams should also examine the assumption column of the project's Logical Framework and include in the overall listing of energy uses and processes those energy consuming/producing aspects of the project which must occur if the project is to succeed. Those which do not fall directly within the scope and management influence of the project should be further highlighted.

In cases where the development of this step one list of project energy resource use and processes indicates that no significant physical energy resources or conversion processes are involved, further steps in the analysis are not required.* The project paper should simply note that there are no major energy consumption/production elements to the project within its environmental impact statement section. When the first step indicates that energy resources and processes are involved, the remaining steps of the analysis are required. If appropriate, it may be included in an appendix to the project paper. The results thereof should, in any event, be noted in the appropriate section of the PP text.

2. Analysis of the Efficiency, Cost Implications and Appropriateness of Energy Technologies Employed by Projects as a Means of Using or Reducing Energy

Some AID-funded projects involve specific technologies for using and/or producing energy, i.e., for transforming energy from some source into a more useable form such as electricity.

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* For purposes of distinguishing between projects that use only human energy from those which involve the use, conversion or production of physical energy, the energy used to transport AID and project staff to and from a developing country is not to be considered as a major use of physical energy resources (even though it is technically a use of such resources). Projects which use physical energy only to transport U.S. and B/G project staff need not undertake additional steps in the process for analyzing a project's energy uses and processes.

For projects that involve such technologies, a full assessment of the energy implications of the project should be carried out in two stages: (a) an analysis of the specific technologies involved in the project and (b) an overall energy analysis of the project (which subsumes the findings of part (a) of this analytic effort). In projects where no technology is directly involved in the project, only part (b) should be undertaken. Part (b), a general energy analysis of a project, is described under paragraph 3 below.

Projects that directly use technologies to create light or heat, to lift water, to power machines, to move things from one place to another are all considered to be projects for which an analysis of the project's specific energy related technologies should be carried out. Thus, for example, the analysis described in this section would be carried out for a rural electrification project or for an agricultural project in which some technology was to be used to lift water to irrigate crops. The assessment would also be carried out for health projects that involve the use of technologies to refrigerate medicines in areas where grid electricity is not readily available. While the list above is not comprehensive, it illustrates the range of situations in which AID expects that project design teams will analyze project energy technologies as a preliminary step in an overall assessment of the energy implications of a project.

When projects will involve specific energy related technologies, it is AID's intention that options be considered in the course of a project design effort. Where alternative energy technologies are being considered, the steps described in this section provide a procedure project design teams are expected to apply as a means for determining which of two or three ways of producing and/or consuming energy within a project is most appropriate. The level of effort devoted to this analysis is expected to vary depending on the amount of information already available concerning alternatives, the proportion of project resources to be devoted to this aspect of the project and the degree to which the project itself is expected to provide information on experimental approaches for providing energy to meet the needs of the developing countries.

Appropriateness, for purposes of this analysis, is considered to be a function of the efficiency of the technologies which a project might employ and their cost implications (in dollar and scarce resource terms). When alternatives exist, AID project

designers should elect those options which are efficient from a technical perspective, low in their demands for financial resources and conserve sources of energy which are non-renewable and scarce from the perspective of the host country or from a global perspective.

The technical efficiency of an energy technology and its cost implications (in monetary and scarce resource terms) are two perspectives which need to be considered each time a machine or process for using energy or converting energy into a more usable form, i.e., for turning either coal or the power of the sun into electricity. Calculations of the technical efficiency of an energy technology and calculations concerning the cost implications of the technology are separate steps in the analysis. In some instances, a comparison of two approaches from these different perspective can yield different answers: A very efficient technology can be very expensive and/or highly demanding in terms of its use of a scarce, non-renewable energy resource. Looked at in both dimensions, specific technologies and processes exist that characterize many points on the diagram below. There is no single calculation that will tell you, in every case, which technology is best in a given project. However, AID expects that the process of laying out the efficiency and cost implications of project technologies, together with good judgment, will result in the selection of appropriate choices in most situations.

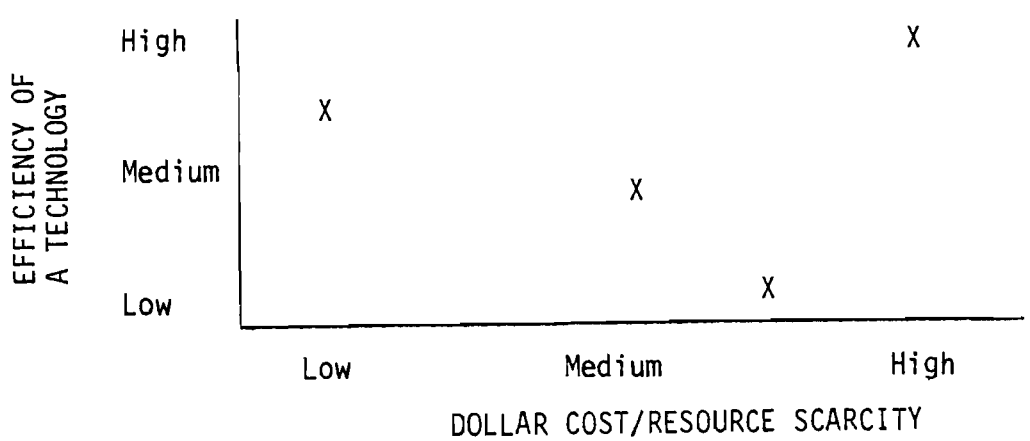

Figure 1

(a) The Technical Efficiency of an Energy Technology/Process

Project designers responsible for assessing the feasibility of a project using a specific energy technology should also be able to provide an assessment of the efficiency of that technology. Efficiency is a term that describes not only how much energy is produced by a technology but also the amount of energy that is consumed in order to produce and deliver the energy the project will eventually use. When we subtract the amount of energy that is required to produce the energy we plan to use, we have calculated the "net" energy of a technology. By comparing the "net" energy yielded by two different approaches for producing energy, we can decide which approach is the most efficient.

A simple way to think about the process of subtraction involved in assessing an energy technology or process is to consider how an enterprise calculates its profits. In every business there are some sources of income and there are expenditures of various sorts, e.g., routine expenses, taxes and monies the business decides to use for expansion. Profits are calculated by subtracting all the expenses from the income of the business. The procedure for determining the "net" energy produced by a technology or process is conceptually the same, though the details of the procedure differ. To calculate the "net" energy yielded by a project the following must be considered:

--all of the energy that is used by the technology or process in the course of producing energy, i.e., everything we would use in the course of producing the energy to lift water out of the ground for irrigation, including the energy used to manufacture the pump and all its parts, the energy used to put the pump in the ground and the energy used to operate the pump.

--all of the energy that is "lost" in the course of producing the energy required to lift water, e.g., through resistance in electric transmission lines, heat that escapes during the process used to manufacture the pump. (Losses of this sort are predictable from the second law of thermodynamics, i.e., entropy; these losses can also be estimated for specific technologies and processes);

--the energy that is produced by the process or technology used in the project, but which is not fully consumed, i.e., that portion of the energy which dissipates or is systematically "fedback" into other energy production processes. An example here would be the portion of the electricity generated by a rural electrification scheme that is used to run the machines in the offices and the plant of the electric company.

In general terms, the logical calculation we need to carry out to determine the "net" energy of a project technology or process, and compare the "net" energy yielded by different alternatives involves a two-step subtraction process which is carried out in practice by developing an energy and cost matrix, as illustrated in Figure 3 on page 12 of this appendix.

A - B = C. Then, C - D = E (or "net energy")

where:

A = all of the energy needed by the technology (to create it, install it and operate it);

B = those predictable losses of energy that are incurred in the course of using the technology (termal losses);

C = the "gross" energy demand of the technology;

D = energy which is not available for the specific use to which the project will put energy, i.e., that portion of "gross" energy which must be reinvested or which just dissipates in some way;

E = the "net" energy that is available for a specific use, e.g., lifting water, running machines, providing light or heat or running refrigeration units, etc.

The statement of the calculation, given above, is an oversimplified version of the actual mathematics of "net energy" calculation. Its purpose in this presentation is to give the novice reader an understanding of what those who carry

out such calculations consider when they assess the efficiency of a technology or process. When such calculations are actually made, one aspect of the effort is given special attention: Namely, the primary source of energy used by the technology or process, i.e.;, that portion of term "A" in the calculation that considers the energy used to "operate" whatever technology or process is being assessed. The reason for giving special attention to this factor is that energy sources, e.g., sun, natural gas, wind, oil, etc., differ quite a bit in terms of productivity and energy quality when we begin to use them. Some of these sources of energy are, by their nature, more efficient than others. Unfortunately, the natural efficiency of energy sources tends to favor non-renewable resources. This fact is extremely important in a "net" energy calculation because most of the energy considered when coming up with the elements of term "A" is the energy that will be used to "operate" a technology or process and because some energy sources take fewer losses (term "B") and involve less dissipation of the energy produced by the technologies or processes we use (term "D"). The figure below provides a graphic summary of the differences in efficiency inherent in different energy sources.

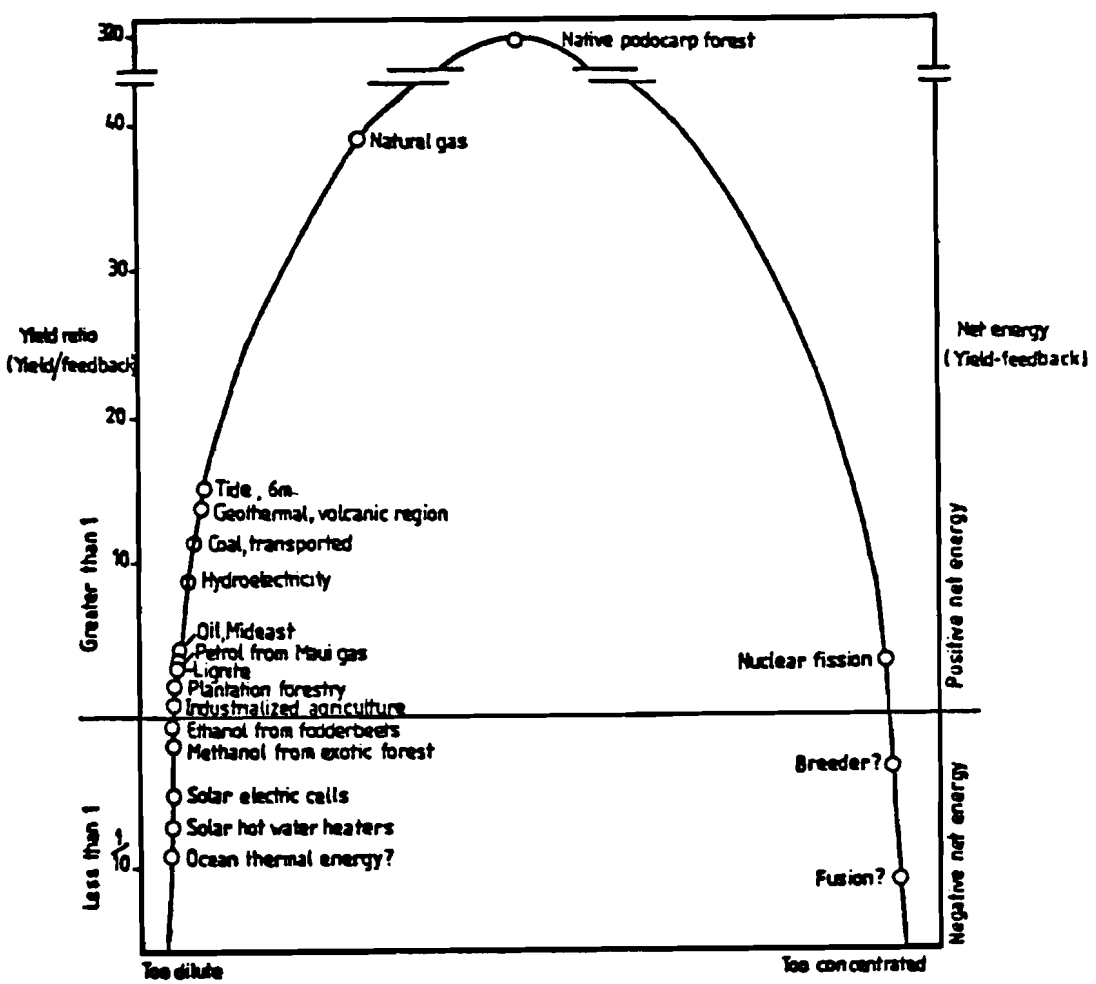

Figure 2. Net Energy of Sources.

In addition to paying special attention to the inherent efficiency of different sources of energy, calculations of "net" energy or efficiency require: (a) that all of the types of energy used in/produced by a project be converted into common measurement units* and (b) information concerning the number of such units, or amount of energy, involved at each stage of the calculation.

(b) Assessing the Costs and the Resource Depletion Characteristics of Alternative Project Technologies

In addition to efficiency, or "net" energy yield, a number of factors should be considered when selecting a specific technology for using or producing energy in an AID-funded project. The other key factors that must be assessed for such technologies include:

--Costs: Both start-up costs associated with the purchase of needed equipment, training of host country personnel, site installation costs, etc., and the long-term ("life-of-technology") operation and maintenance costs;

--Balance of payment implications for all technologies that rely on energy sources, equipment, etc. (specifically oil, coal, gas and kerosene), that the host country will need to import either during project start-up or as part of a long-term operation and maintenance program (i.e., is the technology proposed likely to reduce or increase the country's requirements for imported fuel?);

*The international community, by agreement, has designated the "joule" as the preferred energy measurement unit. The "joule" is a measure of heat. A watt, which is a measure of power, equals one "joule" per second. Thus, for example, one kilowatt-hour, which is a standard measure when dealing with electricity, is 3.6 million watt-seconds, or 3.6 million "joules". Using the type of conversions illustrated by this example, all of the information about energy in a project can be converted to common units, including, where appropriate, calories which are used in discussing human energy or work. Acceptable alternatives to joules include any standard unit such as BTUs, kilowatts, KWH, calories, etc. which provide comparability in the data.

--Energy resource depletion: Those resources which are in scarce supply globally, particularly the ones the country will have to import, need to be weighted in a special manner in the assessment. The weighting associated with the use of such resources serves two purposes: (1) it highlights the degree to which the energy technology is vulnerable, i.e., can be affected by temporary or permanent shortages and/or by changes in the prices which have to be paid for these resources and (2) it is intended to focus attention and effort on the global commitment to conserve non-renewable resources by improving our ability to use renewable resources wherever such substitutions are appropriate, feasible and reasonable from a cost perspective.

(1) The Costs of the Energy Technologies Used in a Project

The costs to be considered in this assessment are the costs of all the energy used by the technology. They are the costs associated with term "A" in the calculation described in the preceding section. The costs should be divided into two clusters: Start-up costs associated with the procurement of equipment, training of individuals and installation of the technology and the long-term operation and maintenance costs associated with each technology the project proposes to employ. In the course of examining the cost implications of proposed technologies, two questions need to be answered for both clusters of costs:

--which elements of the energy requirements of the technologies must be imported and what are: (a) the effects of such importation on the country's balance of payments position and (b) the specific energy related elements that may be vulnerable either because of national or global scarcity or due to externally controlled and highly volatile price conditions? What, in total, are the imported energy costs of the proposed project technology?

--who will pay? (Normally, AID expects that the answer to this question, with respect to start-up costs, will be AID, the host government and perhaps another donor. The question is likely to be more difficult to answer, and more important with respect to the long-term operation and maintenance costs--the "recurrent costs"--associated with the technologies. In answering this question,

project designers should specify whether "user-charges" will be assessed and if so, what evidence exists to suggest that the "user-charges" are set at a level that individuals or communities can/will pay. If "user-charges" are not being considered, the alternative source of funds to cover "recurrent costs" must be identified and justified, i.e., if the host government is to pay the "recurrent costs" associated with the technology, what evidence exists that suggests that the host government can afford to pay and will finance these "recurrent costs". The ability of the host government to bear the "recurrent costs" is not to simply be assumed. (Evidence from AID evaluations and other sources has raised the issue of invalid assumptions about the ability of host governments to assume the "recurrent costs" associated with projects to a level where it is not longer acceptable to simply assume that such an ability to pay exists.)

(2) Special Weighting for Renewable Resource Use

Consistent with AID policy and the results of the 1980 U.N. Conference on Energy, project design efforts are expected to identify situations where renewable energy resources can be used instead of non-renewable resources. In examining the cost implications of project technologies that use or create energy, these policy decisions imply that solutions which use renewable resources and which are competitive with solutions that use non-renewable resources are to be preferred. The focus in the cost calculations, as opposed to the efficiency, or "net" energy calculations, discussed above, is on the degree to which renewable resource using technologies are competitive with non-renewable alternatives. The analysis of the competitiveness of renewable and non-renewable resource using technologies should consider both the start-up and long-term operation and maintenance costs of candidate technologies. While there are no universal relationships that serve as guides in all situations, we do know for example that while some technologies that depend on the sun have high start-up costs compared to non-renewable resource using technologies, their long-term operation and maintenance costs are much lower. Because there are now technologies that differ dramatically with respect to start-up versus operations and maintenance costs, AID considers it necessary to examine both types of costs when making comparisons between technologies in terms of their "competitiveness".

Energy Source and Cost Matrix
Figure 3

Based on the information secured from the analyses described above and a general review of the technology options available to the project, the following type of matrix should be prepared. For projects that have an energy producing technology within the project framework, the matrix may be submitted with the Project Paper.

MAJOR FACTORS TO REVIEW	OPTION A	OPTION B	OPTION C
Technology Proposed	Diesel Powered Pump	Gravity Powered Pump	Windmill
Primary Energy Source	Oil	Water	Wind
Renewable (Y/N)	N	Y	Y
Life of Technology	5 years	10 years	10 years
Materials for Construction Available Locally (Y/N)	N	Y	Y/N
Requires Imported Energy (Y/N)	Y	N	N
Power is Intermittent (Y/N)	N	Y	Y
Years to Amortize	4	4	6
Cost of Equipment	$2,000	$1,500	$10,000
Energy cost per gallon	$ .05	--	--
Annual maintenance cost	$500/yr.	$25/yr.	$100/yr
Number of pumps needed to yield 5,000 gal/day	1	4	2
Net Energy Rank (10 scale)	3	7	9

3. Analysis of the Overall Energy Efficiency, Energy Cost Implications and Appropriateness of Energy Choices in AID-funded Projects

For all projects which are found to use significant amounts of physical energy resources (per the preceding comments), an overall analysis of the project's energy implications is required. In projects that involve specific energy related technologies, the findings from the analysis of these technologies (described in paragraph 2 above) is to be subsumed in the overall assessment of a project's energy implications. For projects that do not involve specific energy related technologies, only the findings that result from the analysis discussed in this section need be discussed in the project paper.

As indicated in the text of Chapter 3 of this Handbook, virtually all projects consume energy in some way. Most projects use a combination of human energy and energy from physical energy sources. In an energy analysis of AID-funded projects, the primary focus is on the degree to which the project proposes to use the most efficient, cost-effective and appropriate energy resources in carrying out those project functions which must be supported by some form of physical energy. Human energy, while quite relevant for a truly broad-gauge analysis, is not included in the analysis described in this section. The relative intensity of labor and other factors in a project will normally be treated in sections of the project paper that discuss the degree to which the proposed project is labor or capital intensive.

In the overall energy analysis of a project, the two major components of appropriateness, i.e., efficiency and cost-effectiveness, are considered (as they were in the prior section's examination of specific energy technologies). The difference between the overall energy analysis for a project and the specific technology analysis described above is that the former takes in all energy used by the project whereas the latter examines only the energy that relates to a specific technology. In the diagram below, the difference is illustrated graphically.

Energy associated with the project's irrigation technology, (fuel). → "Matrix of the Energy Implications of Specific Energy Related Project Technologies"

Energy used in motorized farm equipment, (fuel).

Energy used in moving produce to markets, (fuel, grid electricity, export or sales related energy costs, etc.) → "Analysis of the Overall "Energy Implications of AID-funded Projects"

As in the case of a specific technology, the overall analysis of project energy implications considers efficiency and cost separately.

(a) <u>The Overall Efficiency of Energy Use Choices</u>

It is intended that this analysis have a character similar to a cost effectiveness analysis as contrasted to a cost benefit analysis. In other words, the analysis here takes the project "outcomes", i.e., some of the outputs, the project purpose and the project goal, as givens, e.g., increased production in the northeastern part of a country and corresponding increases in household income. The analysis then asks whether the project has selected the most efficient energy use approach for achieving this objective. The calculation we are making here would normally be made in terms of the energy use per unit of result. Where two or more alternative approaches are being considered they would be compared in terms of their energy use per unit result. Approaches that use less energy to produce one unit of whatever the project seeks to produce would be considered to be relatively more efficient than other options.

In order to make such a comparison, we need to know how much energy the project will consume. As in the preceding section, project designers will need to convert different types of energy into a common unit in order to sum the projects total energy use for a specific approach to project implementation. In making such calculations for projects that do not involve specific project energy related technologies, only energy consumption (over the period during which the project is expected to be implemented and produce benefits, rather than

just during the implementation period) needs to be summed for the different parts of the project that use energy. For projects in which there is an energy technology, the "net" energy figure should be added to other figures which represent energy consumption, i.e.:

Total energy use = $\sum$ (The "net energy" of any/all project energy technologies + (Total energy use for other project components that use but do not produce energy.)

Once total energy is calculated for each of the options the project is considering as an implementation approach, the relative efficiency of alternative approaches can be assessed:

Approach A: Increased production on 2,000 farms divided by the total energy use figure for Approach A (diesel driven pumps)

Approach B: Increased production on 2,000 farms divided by the total energy use figure for Approach B (gravity driven pumps)

When you have determined which approach to implementing the project is the most energy efficient, you need to examine the costs of energy and energy using equipment over the life of the project and factor such results into the final decision.

(b) <u>The Cost Implications of the Overall Project's Approach to Energy Use</u>

An analysis of the overall energy costs associated with a project should, like the analysis of the costs associated with specific energy technologies, examine (a) start-up as well as operations and maintenance costs of energy uses associated with the project, (b) the project's requirements for imported energy, and the resulting vulnerability of the project and (c) the degree to which the overall energy use profile of the project is conservative with respect to those energy sources that are non-renewable and scarce from the perspective of the host country or in terms of a global perspective. In this part of the analysis roughly the same approach is used as has been described for assessing the overall efficiency of the project

in terms of energy. In the energy cost-effectiveness portion of the analysis, costs are substituted for units of energy in the calculations*:

Approach A: Increased production on 2,000 farms divided by the cost of the total energy used by Approach A

Approach B: Increased production on 2,000 farms divided by the cost of the total energy used by Approach B

As indicated in earlier sections of this Appendix, the answers from the cost analysis can differ from those given by the efficiency analysis. The two sets of answers, along with determinations concerning the import requirements of alternative approaches and the degree to which alternative approaches conserve non-renewable/scarce energy resources, should be reviewed carefully in light of the project and the host country setting to come up with a final recommendation concerning the energy approaches to be used in that project.

References

(Reserved)

* It should be noted here that cost-effectiveness is presented as the minimum level of analysis needed to judge the relative costs of alternative energy use approaches. Where appropriate, a full energy cost-benefit analysis would be undertaken, e.g., where different approaches are being tested in the same project, in experiments, in very large projects, etc.

* * APPENDIX 3P

INDICATORS FOR ASSESSING INTEGRATION OF GENDER CONSIDERATIONS INTO AID PROJECTS

AID has promulgated a set of indicators which must be used to monitor the integration of women into the Agency's projects and other activities. There are five indicators for all new and ongoing projects. The PP must include the following:

1. sex-disaggregated data in all references to participants and beneficiaries;

2. constraints to women's participation in all project activities;

3. opportunities for enhancing women's participation;

4. strategies to overcome these constraints or to make use of these opportunities; and

5. benchmarks to measure progress in implementing these strategies.

Legislation and AID policy require that when the above items are impossible to achieve at the outset, the project will ensure that there is a substantive analysis as to the obstacles preventing completion of WID-related efforts, and there must be an explanation as to how these obstacles will be overcome. * *

* * New Material

CHAPTER 4

SPECIAL PROJECT ACTIVITIES: EXCEPTIONS TO THE GENERAL PROJECT SYSTEM

CHAPTER 4

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4A. AID's Approach to System's Exceptions

1. The project development and approval system as presented in the preceding chapters will be utilized for all AID-funded and/or guaranteed projects except as specifically covered in this chapter. Even in those cases where exceptions to the general system are authorized, officials are encouraged to follow the general system to the extent feasible because approving officers are more familiar with that system and will, therefore, be more likely to provide prompt clearance/approval.

2. Any proposal for granting an exception to the general project system requirements for an entire class of projects will be submitted by the Program and Policy Coordination Bureau (PPC) with appropriate clearances to the Deputy Administrator for approval.

4B. Exceptions to AID's General Project System (Chapters 2 and 3)

The development of all AID projects, including those discussed in this chapter, will be preceded by an approved Project Identification Document (PID) or PID-equivalent document approved by the respective Bureau. The difference in the following exceptions is the substance of the final paper (PP equivalent) and/or who is authorized to review and approve project activities. The exceptions are:

1. Projects being Funded with Economic Support Funds or Other Related Funding Categories

Although it is desirable to use the project documentation system applicable to Development Assistance, it is recognized that there are numerous factors including political considerations, timing, etc.,

which are overriding in the case of Supporting Assistance and Economic Support-type funding which may not permit the appropriate Geographic Bureau to satisfy the basic documentation requirements. When departures from the standard documentation are proposed, the PID should identify same. If the need for departures is discovered subsequently, a written request and justification therefor should be submitted to the sponsoring Bureau and PPC.

2. Small Projects (Less than $500,000)

The general project system presented in this Handbook is rigorous and demands a considerable investment in planning and analysis. In line with the desire to match the analytical effort required to plan a project with the size and complexity of that project, abbreviated documentation is permitted for projects involving a total life-of-project cost to AID of $500,000 or less.

The substantive requirements for a PP for a small project will be generally the same as described in Chapter 3 although the level of effort given to various analyses should be commensurate with the substantive importance of the project. It is suggested that economic, implementation and financial planning still be emphasized; however, leeway might be appropriate in detailing the project's history and in analyzing the technical, social, and administrative implications of the project (although in many cases parts or all of these analyses may be quite important and will need to be included).

3. Housing Investment Guaranties

a. The general project system discussed in Chapters 2 and 3 is applicable to Housing Guaranties (HGs). However, HGs are not necessarily tied to the Annual Budget Submission and Congressional Presentation due to the fact that HGs do not utilize appropriated resources, and approval of a HG does not obligate funds.

b. Since a HG involves loans made by U.S. lenders pursuant to direct negotiations between the borrower and the U.S. lender, and HGs are made at the prevailing market interest rate which is subject to change up to the time of commitment, there is often need to minimize uncertainty regarding interest rates by developing and approving HGs in the shortest time period consistent with good project design.

c. Missions and offices, however, are encouraged to combine use of HGs with other AID resources when this will strengthen a project. When non-HG resources are part of a project, then the

entire project should follow the cycled document flow discussed in previous chapters.

d. The following considerations also differentiate HGs from most appropriated resources:

(1) Consideration of issues relating to staff and cost requirements in the development and implementation of HG projects will be the concern of the AID/W office which funds such costs from nonappropriated fee income.

(2) Certain requirements applicable to almost all other AID projects are not applicable to HGs; e.g., requirements for minimum host country contributions stipulated in FAA 110(a) and certification of host country capability pursuant to FAA 611(e). PRE/HUD and/or General Counsel can advise on these and related matters

(3) Because of the nature of the program, the form for authorizing HGs will not use the pro forma project authorization wording contained in Chapter 5, Appendix 5D and 5E. However, where HG and non-HG resources are involved in a project, every effort should be made to have project approval take place in one process so that the authorizing official becomes completely aware of the extent of AID's commitment to the proposed project. (AA HG approval authority is derived from Delegation of Authority #88.)

e. Because of the uniqueness of the program, PRE/HUD should be closely involved in all stages of the development and implementation of HGs. Handbook 7 should be consulted and followed as appropriate. Field posts must concur in HG papers. AID/W review and approval of such papers will be by the geographic bureau involved.

4. P.L. 480, Title II

The general project system covered in Chapters 2 and 3 of this Handbook applies to P.L. 480, Title II, Section 206, Projects; however, for detailed guidance see Chapter 11 of Handbook 9.

5. Assistance to Private and Voluntary Organizations

a. Scope

Private and Voluntary Organizations (PVOs) have conducted refugee, relief, rehabilitation and development programs throughout the world for many years. This section describes AID procedures related to

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AID-administered resources available to PVO's. Policies pertaining to AID and PVOs are stated in Handbook 1 - Policy, Statement V-II. The functions and responsibilities within AID for carrying out these policies are described fully in Handbook 17 - Organization. PVO registration requirements are contained in 22 C.F.R. 203 (AID Regulation 3, Appendix 4C); eligibility of non-U.S. private and voluntary agencies (Annex 1 to Appendix 4C); the register of U.S. PVOs (Appendix 4D); procedures under which PVOs obtain reimbursement for overseas transportation costs are covered in AID Regulation 2 (Appendix 4E); guidance on obtaining excess property is contained in Handbook 16 - Excess Property; disaster assistance in Handbook 8 - Foreign Disaster Assistance; Food for Peace in Handbook 9 - Food for Peace; Operational Program Grants (OPGs) and other centrally funded grants in this Handbook; and grants in Handbook 13 - Grants; and AID's policy on AID-U.S. cooperative organization relationships in Handbook 1 - Policy, Supplement A.

b. Definition

Handbook 1 states the definition of PVOs. This is augmented by that contained in 22 C.F.R. 203 (Appendix 4C) which describes the conditions which pertain to PVOs seeking registration with AID.

c. Objectives

The objectives of U.S. Government collaboration with voluntary agencies are identified in Handbook 1. These reflect the emphasis in Section 635(c) of the Foreign Assistance Act which provides that the President, in furthering the purposes of this Act, shall use, to the maximum extent practicable, the services and facilities of the PVOs registered with, and approved by, the Agency for International Development.

d. Policies Regarding AID/PVO Shipping Lines Relationships

Pursuant to Section 123, AID provides for the reimbursement of overseas shipping costs incurred by PVOs (see Appendix 4E). It is AID policy that PVOs endeavor to make their overseas shipments equally available to all U.S.-flag shipping lines, consistent with their availability, and that no special preference be given any particular U.S.-flag shipping line.

e. Internal Relationships and Functional Responsibilities - General

(1) In the Bureau for Food for Peace and Voluntary Assistance, Office of Private and Voluntary Cooperation (FVA/PVC),

the Office of the Director creates and explores approaches to enlarge the role of voluntarism in the development process, formulates policy proposals in the area of PVO participation, maintains liaison with the Geographic Bureau and other Bureaus and Offices as appropriate with respect to the general area of voluntarism, maintains liaison with the American Council on Voluntary Foreign Aid (ACVFA) and the U.S. cooperatives engaged in overseas cooperative development, maintains liaison with the Department of State, and with the ACVFA monitors the voluntary agency information system, and participates with other responsible offices in FVA and AID/W in the development and/or modification of AID evaluation procedures as established for PVO activities.

(2) The Director in FVA/PVC plans or approves, directs and supervises the operations of FVA/PVC, including directing the formulation of policies and procedures for encouraging and facilitating the work of PVO's, administering support programs, grants and selected worldwide and interregional basic agreements and contracts with U.S. PVO's, and providing policy and technical guidance, on programs in the field of cooperative development.

(3) FVA/PVC is responsible for the administration of the registration process, and performs a range of project management responsibilities beginning with project conception through evaluation and redesign phases, maintains liaison with the Geographic Bureaus and through them with the LDCs seeking appropriate opportunities for the collaboration of private and voluntary organizations, analyzes PVO program proposals to ensure appropriate planning, discussion and clearance with AID/Washington and the field, and identifies and develops opportunities for assisting private and voluntary organizations. (For a comprehensive statement of the functions of FVA/PVC, see Handbook 17, Chapter 19.)

(4) The Geographic Bureaus in AID/W and AID Missions - the functional responsibilities of these organizational entities are covered in Appendix 4B and Handbook 17.

(5) The types of AID grant relationships available to U.S. PVOs from FVA/PVC and other AID bureaus, offices and Missions are described in the following. Registration with AID is a prerequisite for application for each.

(a) Operational Program Grants (OPGs)

Operational Program Grants (OPGs) enable PVOs to carry out specific projects (new or ongoing) in individual countries and occasionally regions. Typically, an OPG is a two- or three-year program,

supporting projects which are initiated and developed by the PVO (rather than AID) and is fully compatible with AID's legislative mandate. Normally 25% of the cost of the project must come from non-AID sources. Any request for waiver of the 25% provision must be included in the project proposal and approved by the appropriate AID bureau or Mission. The project must be consistent with AID's overall program for the country in which it is to operate.

Applications for OPGs may be made to the bureau or USAID Mission responsible for the country in which the proposed project will operate.

Recognizing the ability of AID to act on a speedier timetable in dealing with OPG's and also recognizing the particular requirements and abilities of PVOs, AID has agreed to expedite somewhat simplified procedures for OPGs. (These procedures and guidelines are set forth in Appendix 4B to this Chapter 4. NOTE: Questions regarding any aspects of these procedures should be addressed to FVA/PVC, PPC and/or the Bureau Liaison Officers.)

(b) Matching Grants

Matching grants are awarded to PVOs to carry out a clearly conceived, evaluable, field-oriented program that takes place in a number of countries, which is consistent with AID's legislative mandate, and supports a clearly defined, delineated program. Such a program may be as broad as the overall scope of the PVO's work or as specific as community-based health services or small enterprise development. The matching grant will normally allow a PVO to expand its program to new places and initiate new projects. Grants are awarded to PVOs with well-established development programs and with demonstrated private fund-raising ability. The grant may have a term of up to three years and is matching in the sense that AID will pay no more than 50% of the cost of the program.

Application may be made to the Office of Private and Voluntary Cooperation, Bureau for Food for Peace and Voluntary Cooperation, Agency for International Development, Washington, D.C. 20523.

(Appendix 4B contains a more detailed statement of the purpose, guidelines and procedures applicable to these grants.)

(c) Institutional Support and Development Grants give continuing support to a few PVOs and cooperative development organizations with well-established programs, usually having service

or intermediary functions overseas. Although these grantees may receive varying amounts of support from the private sector, the AID funding is needed to sustain their programs at an optimal level. (The application process for Institutional Support, Management Services and Consortium Grants is subject to special considerations dependent upon the nature of the proposed program. Specifics are available from the Office of Private and Voluntary Cooperation, FVA/PVC.)

(6) In addition to the grants available from FVA/PVC and the Agency's geographic bureaus and Missions, PVO's may also apply to several individual AID offices for grants for projects relevant to the programs of those offices. In the Bureau for Science and Technology, for example, the Offices of Education, Energy, Health, Housing and Population each awards grants for projects that pertain to their overall programs. The Office of Women in Development, Bureau for Program and Policy Coordination, also gives grants to PVOs, as do the following in the Bureau for Food and Voluntary Assistance: Office of American Schools and Hospitals Abroad, Office of U.S. Foreign Disaster Assistance, Office of Food for Peace, and Office of Labor Affairs.

(7) AID's policy on AID-U.S. cooperative relationship provides for (a) continuing use of the cooperatives as a resource in our bilateral programs, with provision for the collaborative assistance form of relationship; (b) encouragement of direct relations between U.S. cooperatives and developing country cooperatives outside the framework of the usual government-to-government bilateral programs on a matching grant basis; and (c) placement of the cooperative coordinator position in PVC, which will have responsibility for (b).

(8) Grants or cooperative agreements may also be made to organizations to provide management support services to PVOs, or to play a collaborative/facilitating function, as in the case of a consortium.

(a) Management Support Services (MSS) Grants are designed to enhance the management, technical and program capabilities of PVOs through a centralized grant providing services to the PVO community as a whole, both domestic and foreign. The expertise of the grantee is shared with PVOs, at minimal cost, allowing for greater PVO internal development. Current MSS grants are in the fields of information collection and dissemination, financial management assistance, program design and planning and evaluation.

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(b) Consortium Grants are made to organizations to play a facilitating role vis-a-vis groups of PVOs with similar interests to enable them to exchange information and program experiences and to collaborate in programs. These grants also enable grant monies, through the consortia or their members, to reach small grassroots projects.

(9) "Uniform Administrative Requirements for Federal Grants and Agreements", OMB Circular A-110, is attached hereto as Appendix 4F. It provides additional guidance on the administration of grants and other agreements with institutions of higher education, hospitals and other non-profit organizations.

6. Interregional Projects

[Reserved]

7. American Schools and Hospitals Abroad

[Reserved]

8. Local Currency Projects

This guidance applies only to those instances in which Missions have decided, as part of their assistance strategy, that the Mission should actively participate in the programming of local currency proceeds of U.S. aid.

a. Local currency projects are projects financed from U.S.-controlled, host country-owned local currency deposits. Local currency project design and approval is not included within the General Project System. Each Mission Director is responsible for developing a system for project design and approval where the Mission is responsible for projects financed from U.S.-controlled, host country-owned local currency. However, if U.S.-controlled, host country-owned local currency is utilized on a project which is partially financed by AID with appropriated dollars, the project is designed and approved in accordance with the general project system.

b. Mission project design and approval systems for local currency should be formulated to assure the Mission can account for expenditures and that full consideration is given to the fact that projects financed with U.S.-controlled, host country-owned local currency are subject to AID audit.

4B

9. Intermediate Credit Institutions

In addition to the requirements for project assistance set forth in previous chapters, the information listed in Appendix 4A to this Chapter 4 should be provided in Project Papers covering assistance to intermediate credit institutions such as agricultural credit institutions and development banks.

10. Feasibility Studies

Where the project consists solely of the financing of feasibility studies, the Project Paper will need to focus on the impact of the overall planned effort (assuming a sectoral focus). It also should present details of the specific proposed studies, or if these projects are numerous or only partly known at the time of proposed PP review, a representative sample of such projects (including the most significant efforts) should be discussed at the time the Project Paper is reviewed.

APPENDIX 4A

INTERMEDIATE CREDIT INSTITUTIONS

In addition to the requirements of Chapter 3, this Instruction outlines the basic information appropriate for submission with a Project Paper, for AID financing of credit institutions such as agricultural credit institutions and development banks. Projects involving agricultural credit should make reference to the materials developed as part of AID's 1973-74 Spring Review on small farmer credit.* Where assistance is for a proposed new institution, all available information should be supplied including information called for in the following checklist plus any additional information the applicant deems relevant. Where assistance is to an institution AID has previously helped, far less detail per Section A below, is necessary.

A. The Applicant

1. Official name of institution.

2. Mail and cable addresses.

3. Nature of present financial operations (kind of loans made, purpose, terms, etc.), with references to applicable provisions in charter, by-laws and policy statements.

4. Legal basis for institution, including statutory authority, articles of agreement or charter, and other founding documents. Such submission shall include statutes and regulations materially affecting the credit operation of the institution.

5. Policy statements covering the philosophy and method of operations of the institution and how the institution links in with basic sectoral policy, employment strategies, subsidies (reason and manner of operation), restrictions in loan size, purposes, etc.

6. Geographic area of operations.

7. Description of the capitalization: equity and debt; how raised; list of subscribers or principal stockholders, including biographic sketches as appropriate; term of debt capital, etc.

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* See especially "Small Farmer Credit: Summary papers," AID Spring Review of Small Farmer Credit, Vol. XX, June 1973, No. SR 120, available from AID.

8. Balance sheets and profits and loss statements covering each of the previous five years of operations.

9. Description of the organizational structure of the institution.

10. Biographic data of Directors, including a description of their present full-time positions and indicating financial and management experience and other qualifications.

11. Biographic data of management officials, indicating financial and management experience and other qualifications and principal previous experience.

12. Detailed description of procedures for processing loan applications, monitoring loans, enforcing collection remedies, etc.

B. AID Financing Request

1. Amount of funds requested, an estimate of the time period during which the institution expects such funds would be subloaned, and the basis for this request and estimate.

2. Amount of funds available to the institution from agencies other than AID, and description of how the institution intends to apply these funds, including local and foreign currencies.

3. Proposed use of AID funds and credit-worthiness criteria which the institution will apply to screen applicants. This should include a general description of the type of loans to be made, maturities of the loans, amount of equity which will be required from borrowers from the bank, amount and kind of security which will be required from borrowers, interest rate which will be charged, and a contemplated form of loan agreement which will normally be used.

4. With respect to an application for AID development loan financing:

a. Tentatively proposed repayment schedule.

b. Proposed AID interest rate.

c. Where AID's loan to the institution is to be covered by a government guaranty, the nature of the guaranty.

5. Justification of the spread between the expected rate of interest (if any) to be payable to AID and the rates the institution proposes to charge ultimate borrowers, in terms of the institution's projected administrative and other costs, including:

a. Any special technical assistance functions that the institution intends to provide for borrowers as an inherent part of its loan operations.

b. The cost of attracting further resources: e.g., interest rate payments to depositors and other lenders and dividend payments to shareholders, including analysis of the relationship of these rates to other interest rates generally prevailing in the country, especially for comparable types of credit.

c. Adequacy of the project rate spread to serve as, and other measures to be taken to provide, a hedge against losses due to any anticipated inflation.

d. Provision for reserves against anticipated losses.

e. The extent to which government subsidies will offset the foregoing costs.

C. Relationship of the Activities of the Institution Actual and/or Projected to the Country's Overall Economic and Sector Development Requirements

1. Present and projected demand within the country for the type of credit to be offered by the applicant. This should include data showing with respect to the sector or sectors in which the applicant will operate the following:

a. Investment over the past several years;

b. Estimated required annual investment over the next five years; and

c. Scope and extent of operations of other intermediate credit institutions and commercial banks in the country.

D. Estimated Results of Proposed Financing

1. Anticipated contribution to development of both the country and the sector or sectors within which the applicant will operate.

2. Relation to the overall development of program of such country.

3. Anticipated effect, if any, on the foreign exchange position of such country.

4. Other relevant information and background.

5. How will rollover funds be utilized and what restrictions, if any, will exist regarding their use.

E. Operations Projection

Pro forma operating statements covering the first five years of operation following receipt of AID funds, showing interest charges, interest payments, operating expenses, projected annual net profit and proposed distribution thereof, and indicating any special factors known to or anticipated by the applicant, that may affect the projections.

F. Other Sources of Financing

The application should describe any prior attempts by applicants to obtain credit from other public and international lending agencies or private financing sources, including stock subscriptions, and the terms, if any, on which such capital is or may be available. The applicant should describe any role that a foreign government or governmental agency or any international or private institution, such as the IBRD, IDA, IFC or IDB, or an Edge Act corporation has played in the establishment and/or operation of the institution.

G. Documentation

In addition to the documents and pro forma statements outlines required above, the applicant should submit any other pertinent material supporting the application or bearing on the institution which is necessary for a complete understanding of the information furnished or of the applicant's purposes, sponsorship, history and plans.

APPENDIX 4B

PROCEDURES FOR PVOs ON OPERATIONAL PROGRAM GRANTS (OPGs)

Major Steps in Planning and Implementing Development Projects

These procedures are based on the Guidelines Governing Funding for Private and Voluntary Organizations in Connection with Development Assistance Under the Foreign Assistance Program.

A. Early Consultation

PVOs are advised to consult with the appropriate AID Mission or Geographic Bureau in AID/W before preparing a project proposal. A decision will be made at this stage as to whether the proposal is appropriate for grant or contract financing and the office which will have action responsibility. A discussion of the following elements should be included:

1. Discussion of development activity to be undertaken, including the development problems to be addressed and what impact this activity will have on the resolution of these problems. Review of alternatives which have been or should be considered to meet the project problem.

2. Indication of the major beneficiaries of the project with particular reference to the poorest majority within the recipient country.

3. Preliminary indication of host country's interest in this activity.

4. Background information, studies, or analyses that have been done or may be needed in preparing a project proposal. Resources required by the PVO for any additional study and whether these are available.

5. A rough estimate of probable total cost, including AID funding as a separate item, and time period for project preparation and implementation with an outline of major inputs contemplated. (If requested, AID will provide the PVO with some indication of AID funding availability and of periods during the year where AID's workload is apt to be lighter.)

Where the PVO organization proposing the project has not previously done so, it will be expected to provide statements substantiating that:

-- the purpose of the PVO is philanthropic or service in nature, that it is nonprofit, nonpolitical, nongovernment, and not a university, primarily an educational institution, or a research organization.

-- it possesses needed managerial competence for planning and carrying out the proposed development assistance project and the ability to practice mutually agreed upon methods of accountability for funds and other assets provided by U.S. taxpayers.

Both U.S. and indigenous PVOs will be considered as potential OPG recipients. For the convenience of the PVOs, it has been agreed that their consultations may take place and their proposals be presented to either/or both the field office of AID in the country where the project would be carried out, or to the Geographic Bureau of AID in Washington. When the PVO approach is made in Washington, AID/W will consult the field posts. PVO contact with AID field posts is advisable when the PVO does have representatives in the field.

Information on suggested contacts in AID/W for PVOs is provided as Attachment A to this paper. The responsible Bureau will designate a Project Officer early in the consideration of each project who will have continuing responsibility for AID action concerning it.

B. The Operational Grant Proposal

An outline has been prepared to assist PVOs in preparing project proposals. It is provided as Attachment B to this paper, and is intended to delineate the content and organization of the proposal. It will be useful to all parties interested in the project by summarizing the analysis and planning which the PVO has done in order to assure that proposed expenditures will indeed result in the planned accomplishment within the specified period of the project. A rule of reason should apply in using the outline, providing all information which is substantially relevant to the proposal in a concise fashion.

PVOs may submit descriptions of their design and evaluation systems to AID/W if they feel their systems meet the substance of Attachment B. AID will review such systems and may accept the PVOs own forms for submission of OPG proposals to AID. In any case the data presented in Attachment B shall be used by AID as its analytic standard in judging OPG proposals.

The PVO may obtain counsel and access to available background information and studies from AID. However, responsibility for preparing the subject proposal is entirely that of the PVO.

PVOs also may associate with the regular AID project efforts as co-donors or implementing agents.

C. AID Project Review

It does not seem feasible to develop a standardized procedure for all AID bureaus owing to the bureaus' differing views of their relationship with PVOs and their own internal project paper review and approval mechanisms.

Measures have been found, however, to accelerate this process and to improve communications with PVOs during the project initiation and review period. Nevertheless, a number of factors, including the need for exchanges between AID/W and field posts (e.g., on PID equivalents), possible need for supplementing the proposal, as well as the need for responsible review, will impose a waiting period for the AID response even though action is taken expeditiously. Generally, a minimum response period of sixty to ninety days should be expected after presenting an adequate project proposal.

The Project Officer will initiate and expedite AID consideration of the project proposal. OPG proposals may be submitted simultaneously to the appropriate USAID and geographic bureau to minimize the time involved in communicating between AID/W and the field; no action, however, will be taken by AID/W without a recommendation from the USAID. The Project Officer will be responsible for consulting the PVO as early as possible if questions arise, preferably by sharing copies of issues papers or cable traffic with USAIDs. The PVO may be asked to meet with the AID Project Committee and will be advised promptly by the Project Officer of the program decision reached. In the event of disapproval, the Project Officer will be responsible for advising the PVO of the reasons for the action.

D. Negotiation of the Operational Program Grant

Subsequent to AID program approval, a Grant Officer is designated from the AID/W Contract Management Staff or the AID field post (see Project Officers Guidebook, June 1980, for details). The Grant Officer has responsibility for negotiating the grant agreement and making any binding promise or obligation for the Government. Separate informational material is available on the basic provisions of grants, which are simpler than customary contract documents in recognition of the different relationship which exists. To avoid later conflict, these documents should ensure that subsequent project implementation and evaluation actions will acknowledge any revisions in AID standard procedures. The Grant Officer will accept PIO/Ts and begin to prepare the grant agreement immediately after the project has been authorized.

E. Reporting and Consultation on Progress

In accordance with the Grant Agreement, the PVO will prepare and submit to AID periodic reports indicating progress against the implementing plan outlined in the project proposal and providing an accounting of OPG funds expended. With regard to the format and scheduling of program reporting, full consideration should be given to the PVO's own reporting systems. In accordance with the requirements of OMB Circular A-110 (Attachment G) AID grantees report financial status on Form SF-269, "Financial Status Report," and when funds are advanced, also on the SF-272, "Report of Federal Cash Transactions," and SF-270, "Request for Advance or Reimbursement." These will be submitted in accordance with the grant agreement.

F. Evaluation and Audit

Attachment B, the outline of project proposal, seeks PVO presentation of monitoring and evaluation plans. It is anticipated that the PVO will itself provide for monitoring progress in implementation.

Because of AID's responsibility for effective use of public funds, it expects that evaluations of projects funded by AID will be regularly conducted. Normally, regular evaluations will be conducted by the PVO and host country and/or the counterpart or cooperating organization. In some circumstances, however, AID and/or a third party may want to participate as a team member in certain evaluations. This should be agreed upon at the time the grant or amendment thereto is negotiated and should be contained in the agreement. In all cases, AID should be promptly provided with copies of all evaluations, including data upon which evaluation findings are based, of OPG projects it supports. The cost of monitoring and evaluation activity carried out in connection with the project shall be eligible for financing under the project.

In addition, audits will be conducted at reasonable intervals in accordance with the grant agreement.

Attachment A

Suggested PVO Contacts Overseas

Primary contact in field posts should normally be made with the USAID office charged with responsibility for PVO affairs, if known. If not, primary contact should be made with the USAID Director or AID Affairs Officer or their program officer.

Washington

PVO's can contact the appropriate Regional Bureau Office, listed below, to determine the current primary contact point at Missions in their region.

Bureau for Food and Voluntary Assistance

The staff of the Office of Private and Voluntary Cooperation, which has responsibility for Development Program Grants, will serve as a focal point for general inquiries where PVOs are not familiar with AID organization.

Bureau for Africa

Primary contact should be with the AID country desk officer(s). For further help and information, contact the Office of Development Planning.

Bureau for Asia

Primary contact should be made with the Office of Development Planning.

Bureau for Latin America

Primary contact should be with the Office of Development Planning and with the Country Desk Officer, if appropriate.

Bureau for Near East

Primary contact should be made with the Office of Technical Support and or with the appropriate country desk officers.

Bureau for Science and Technology

Primary contact should be with the Bureau Program Office.

Bureau for Program and Management Services

Primary contact should be with the individual grant officer in the Office of Contract Management.

ATTACHMENT B

Operational Program Grant (OPG) Proposal Outline

Project Title: Total OPG Request:

Project Location:

PVO Name and Location:

Central Headquarters:

Contact Person:

Date of Submission to AID:

A. Project Purpose and Description

- Describe project purpose and target group of beneficiaries.
- General description of project.
- Conditions expected at end of project.

B. Project Background

- History of proposal development including: problems and development objectives addressed citing any relevant studies.
- Briefly describe your prior experience in project and related area.
- Host country activity in project/program areas - past, present, and proposed.

C. Project Analysis

1. Statement of the economic effects of the project (a) on its major intended beneficiaries, (b) on related groups, and (c) the potential to reach large numbers of people at low per capita cost. Such effects could include such desirable purposes as increased income and employment; enhanced job opportunities through

encouragement of labor-intensive, low-cost systems of production andservices; improved literacy; and better forms of education and training to help people qualify for opportunities. In its review of the proposal, AID will be comparing the benefits of the project with the cost of the proposed effort. To the extent the PVO can apply information to assist the comparison, review of the proposal will be facilitated.

2. Statement of the technology to be used and its appropriateness, and the ability of the implementing organization and beneficiaries to utilize that technology. This would also include an examination of available appropriate manpower, other inputs, market opportunities, delivery facilities, and other possible project constraints, and methods to overcome them.

3. Statement of pertinent sociocultural factors and implementing agency environment. Describe and assess impact of project on sociocultural traditions and values. Particular attention should be given to the role of women and the impact of the project on women. This section should also address, as appropriate, the degree to which the project strengthens: host country or local capability in provision of services which help the poorest majority of people to experience better diets, better health and child care, more manageable family size, net employment and improved purchasing power; and contributes to increasing production, processing, nutritive value and distribution of food. Indicate whose interest will be harmed by the project and whether their opposition may be critical.

4. Statement of project relationship to other considerations in the Guidelines Governing Funding for Private and Voluntary Organizations in Connection with Development Assistance Under the Foreign Assistance Program: (Annex 3 to this attachment)

- directness of project impact upon people who constitute the poorest majority and are often beyond the reach of public services.

- tie in, if any, with other programs which assure complementary efforts (or plans to do so).

- potential for project to spread to larger numbers of people over an extended period of time and how this should best come about.

- potential for wide-scale application of the project based on domestic resources.

5. Presentation of a realistic plan showing that the proposed activity has a reasonable chance to be institutionalized with domestic resources. This should include training of local staff to assume all project

responsibilities by the time donor supportterminates. An important component to the institutionalization is the means by which financing will become available to make the activity independent of external donor financing, normally starting with substantial local support at the outset of the project to assure local interest and participation.

D. Project Design and Implementation

1. Implementation Plan

- a description of how the project will be carried out, and whether or not subgrants or contracts will be made.

- how the PVO plans to provide for technical assistance; i.e., through the use of volunteers, paid staff, and/or consultants, the use of commodities, etc.

- basic assumptions about the availability and PVO management of resources.

- proposed disbursement and procurement procedures, and related controls.

- a schedule of actions required, their timing and interrelationship, and the points of responsibility for carrying them out.

- a description of how the PVO intends to monitor the above-described implementation plan.

- any waivers of AID rules and regulations necessary for the good conduct of the project and which can be foreseen should be included in the OPG proposal. Considerable effort can be saved if the waivers are justified at the earliest possible time. Normally, it will be expected that AID-supported projects can be conducted without waivers; however, Annex 1 is a listing of the more typical waiverable items as well as the circumstances and procedures to effect the waiver.

2. Measurement and Evaluation of Project Accomplishment

The proposal should contain a schedule of planned accomplishment, giving target dates, data as to conditions at start of project, and as expected at periodic intervals until project ends. This schedule of accomplishment is distinct from the schedule of implementation action above in that it enumerates the development changes to be achieved (using measurable indicators where possible) rather than the application of resources and effort. The proposal must also contain a plan for the periodic evaluation of the project's accomplishments.

The PVO is responsible for the conduct of all evaluations. Because evaluation as practiced by AID is unfamiliar to some PVO's, Annex 2 is a somewhat amplified statement on the evaluation standards AID has established for OPG proposals.

E. Financial Plan

Budgets should be calculated by estimated cost per given period of time (year or half-year) for the entire life of the project itself, not only the costs of the organization undertaking the project. Costs are defined as accrued value of goods/services as they are procured (goods) or actually performed (services) or used up. This should not be confused with disbursements (payment of bills).

1. The budget breakdown should accord with the following applicable components. All sources of funds, including AID, should be shown separately and identified within each major cost component (i.e., 1, 2, 3, 4):

a. Personnel Costs (including Indirect Salary Costs and Benefits) in dollars and person-months.

(1) U.S. Technicians, etc.

(2) Third-Country Personnel

(3) Local Personnel

b. Training Costs (including Transportation and Subsistence) by dollars and person-months.

(1) Training in United States

(2) Training in Third Countries

(3) Local Personnel

c. Commodity Costs

(1) U.S. procured

(2) Third Country procured

(3) Locally procured

d. Other Costs (Illustrative)

(1) Cost of office and equipment rentals, etc.

(2) Fuel

(3) Transportation Costs

(4) Other Support Costs, including overhead* applicable to the project.

2. It is also strongly recommended that detailed budget breakdowns be available for negotiations by program activites, for example:

a. Building a clinic

b. Training personnel

c. Clinic operation

d. Community extension

F. Conditions

1. Evidence that the project's requirements for supportive resources other than that requested of AID will be available.

2. Explicit evidence of approval of the proposed project by the host country government, including information on the point of reference in the host government.

G. Statutory Considerations

Project proposals should reflect consideration of applicable statutory requirements; in particular the following two requirements:

1. Section 611 of the Foreign Assistance Act of 1961, as Amended, which is applicable to any AID grant or agreement obligating in excess of $100,000;

The wording of these statutory provisions is presented below:

"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 (31 U.S.C. 200), shall be made for any assistance authorized under Chapter I or part I, title II of Chapter 2 of Part I or Chapter 4 of part II --

* It is now agency-wide policy for AID, if requested, to include overhead at established rates in arriving at the total cost and AID's share of the support for OPG's. Depending upon cost-sharing arrangements between AID and the PVO, AID will pay a share of the overhead on the same basis that it pays for a share of the other costs of the activity.

"(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; and

"(2) if such agreement or grant requires legislative action within the recipient country, unless such legislative action may reasonably be anticipated to be completed in time to permit the orderly accomplishment of the purposes of such agreement or grant.

"(b) Plans required under subsection (a) of this section for any waiver or related and resource construction project or program shall include a computation of benefits and costs made insofar as practicable in accordance with the procedures set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973, with respect to such computations.

"(c) To the maximum extent practicable, all contracts for construction outside the United States made in connection with any agreement or grant subject to subsection (a) of this section shall be made on a competitive basis.

"(d) Subsection (a) of this section shall not apply to any assistance furnished for the sole purpose of preparation of engineering, financial, and other plans.

"(e) In addition to any other requirements of this section, no assistance authorized under Chapter I of part I, title II of Chapter 2 of part I, or Chapter 4 of part I, shall be furnished with respect to any capital assistance project estimated to cost in excess of $1,000,000 until the head of the agency primarily responsible for administering part I of the Act has received and taken into consideration a certification from the principal officer of such agency in the country in which the project is located as to the capability of the country (both financial and human resources) to effectively maintain and utilize the project taking into account among other things the maintenance and utilization of projects in such country previously financed or assisted by the United States.

2. Section 101 of the Foreign Assistance and Related Programs Appropriation Act of 1979, which applies to the construction of any new flood control, reclamation, or other water or related land resource project or program; and

> "Sec. 101. None of the funds herein appropriated (other than funds appropriated for 'International organizations and programs') shall be used to finance the construction of any new flood control, reclamation, or other water or related land resource project or program which has not met the standards and criteria used in determining the feasibility of flood control, reclamation, and other water and related land resource programs and projects proposed for construction within the United States of America under the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973

PVO*[1] - GRANT HANDBOOK CLAUSE WAIVER CONSIDERATIONS

HANDBOOK 1, SUPPL. B AND HANDBOOK 13	CAN THE REQUIREMENT BE WAIVED?	UNDER WHAT CIRCUMSTANCES CAN THE REQUIREMENT BE WAIVED?	WAIVER AUTHORITY IS VESTED IN:	LEGAL/ADMINISTRATIVE RQMT. DERIVED FROM:
Travel Approvals	Yes. The clause requires the Grantee to obtain written concurrence from the cognizant technical office. This requirement is based on the need for ambassadors and mission directors to be aware of individuals traveling to their areas under the auspices of AID. The provisions of this clause apply only to travel costs which will be charged directly against AID granted funds.	A blanket waiver could be granted when the Grant is made or at any subsequent time if AID receives the concurrence of the concerned missions.	Blanket Waivers: Administrator*[2] Grant by grant: SER/CM	Policy Determination 59 (Grants Handbook 13, para. 4E1a)
Local Procurement	See Handbook 1B, Chapter 16B1b			
Single Source (i.e. competition)	See Handbook 13, Chapter 1, Para. 103c (6)			
Small Business Notification	Yes - on a case-by-case basis. It should be noted, however, that the clause presently contains sufficient flexibility for normal situations. The provision regarding small business applies to orders/contracts which will exceed $25,000 and will be charged directly against AID granted funds.	Typical examples: 1. Proprietary procurements when no substitution will suffice. 2. Procurement of non-interchangeable parts/components for replacements on existing equipment. 3. Procurement of technical equipment requiring standardization and interchangeability of parts.	Blanket Waivers: Administrator*[2] Grant by grant: SER/CM	Foreign Assistance Act, Section 602
Approval of Sub-Grantees/ Sub-Contractors	Yes.	Approval of the Grant Officer is required for the placement of subordinate agreements which were not included in the approved Financial Plan at the time of execution.	Blanket Waivers: Administrator*[2] Grant by grant: SER/CM	Handbook 13, para 1P.4.

NOTES: 1. For the purpose of this discussion, the term PVO does not include Educational Institutions (i.e. Universities) which are covered by OMB Circular A-21.
2. Blanket waivers are waivers which cover either: (i) all grants with a particular PVO or (ii) a particular requirement under all grants to PVOs

ANNEX 1 to ATTACHMENT B of APPENDIX 4B

Annex 2 to Attachment B of
Appendix 4B

ANNEX 2
Evaluation

The evaluation process consists basically of answering the following three major questions:

-- Has progress toward planned targets been achieved? How has this been measured? Have any unplanned results occurred?

-- Does this project design have continuing relevance in the light of changes over time in host country circumstances?

-- What internal elements of project design and/or what external factors caused success or failure?

1. Routine Evaluations

Evaluations should be scheduled on an episodic basis: they should be timed to provide evaluative data for implementation of management decisions as they relate to the project targets. They should draw upon progress data routinely collected by the implementation personnel and normally should be low cost and of short duration. These evaluations should be conducted jointly with local counterparts.

2. In-Depth Evaluations

A joint in depth evaluation should be conducted for every project at least once during implementation to measure accomplishments to date, to establish the nature and impact of causal factors and, if appropriate, to determine the future directions of the project.

3. Joint Evaluations

Joint evaluations as used above means the PVO in conjunction with the counterpart or cooperating organization and/or the host country. While the PVO has primary responsibility for the conduct of all evaluations, in some circumstances, AID and/or a third party may want

to participate as a team member in certain evaluations. This should be agreed upon at the time the grant or amendment thereto is negotiated and should be included in the agreement. In any case evaluation plans should be presented in the OPG proposal and included in the grant agreement, whenever possible. In all cases AID should receive a copy of the evaluation report, including data upon which evaluation findings are based, and the decisions (if any) resulting therefrom.

4. Design and Evaluation Standards for OPG Projects

Either of the two options presented below may be used by PVOs submitting OPG proposals:

Option (a): Logical Framework Matrix

AID identifies and interrelates the major factors in a project through the use of a logical framework matrix. If the PVO elects to use this option, the matrix should be attached as part of the proposal. Information drawn from the matrix should be used in drawing up the proposal narrative, particularly for Section A. (AID is prepared to train staff members of PVOs in the use of the logical framework and to work closely with the PVO to prepare the logical framework during the development of the OPG proposal. The framework will help those involved in the project design, review and subsequent evaluation of the project.)

Option (b): Evaluation/Design Elements for PVO Projects

Since some PVOs are not familiar with or may prefer not to use the logical framework, the following questions may be answered in the OPG proposal in lieu of the matrix:

1. What is the level/state of development (i.e., baseline) at the time the project is launched, e.g., production, income, savings, consumption, morbidity, caloric/protein intake, etc.?

2. What is the purpose of the project, i.e., what important problem/deficiency is the project intended to solve? State the project purpose in terms which are sufficiently explicit, finite and verifiable to permit subsequent determination of whether it has or has not been achieved.

3. What are the preconditions for achieving the project purpose, i.e., what resource inputs are necessary to achieve the project purpose and what are the intermediate accomplishments which must be in place if the project purpose is to be achieved?

4. What is the higher order development goal to which the project is expected to contribute?

5. How is it intended to measure and verify progress toward -- and accomplishment of -- the project purpose, the higher order development goal, and any intermediate accomplishments? How will the measurement technique to be used deal with magnitudes, target areas/audiences and target dates?

6. What are the important external factors in the host country socio-economic environment which may affect the project? Describe these external factors as explicitly as possible, noting their criticality and anticipated behaviors.

5. Funding of Evaluation and Monitoring

Where there are requirements for consultants and other special help, such costs can be considered for financing under the OPG.

Annex 3 to Attachment B
of Appendix 4B

Guidelines Governing Funding for Private and Voluntary Organizations in Connection with Development Assistance Under the Foreign Assistance Program

Purpose: The purpose of this memorandum is to set forth guidelines to be used within AID and by private and voluntary organizations in carrying out expanded funding and other relationships between AID and private and voluntary organizations in the furtherance of the development assistance programs undertaken under Section 103, 104, 105 and 107 of the Foreign Assistance Act.

Definitions: For purposes of these guidelines, private and voluntary organizations, including cooperatives, are defined as follows:

1. U.S. and other organizations that are philanthropic or service in purpose, non-profit, non-political, and non-governmental.

2. Not included are universities and other primarily educational institutions, and research organizations.

Background: Clearly, the use of AID funding must be aimed at accomplishment of the overall objectives of the Foreign Assistance Act. Specifically, development assistance funds should be used for activities that square with the basic emphases set forth in the New Directions Mandate approved by Congress in December 1973. At various points in the statute itself and in various Congressional committee reports relating to the law, Congress indicated that emphasis should be placed on:

1. Assisting less developed country governments and organizations in strengthening their capacities to function more effectively in the provision of public and private services to help their people who constitute the poorest majority to experience better diets, better health and child care, more manageable family size, constructive income-producing work and improved purchasing power.

2. Integrating women into the national economies of their countries, thus improving their status and assisting in the total development effort.

3. Increasing production, processing, nutritive value and distribution of food.

Enhancing of job opportunities for people who constitute the poorest majority, both men and women, through encouragement of labor intensive, low cost systems of production and services, improved literacy, and better forms of education and training to help these people qualify for job opportunities.

Guidelines: AID policy recognizes the natural affinity between the interests of the private and voluntary organizations and the Congressional emphases noted above. AID also notes the growing interest of private and voluntary organizations in developing their capacities to expand their development assistance activities. AID grants are intended to assist in this effort while preserving the identity of the private and voluntary sector. Accordingly, the guidelines apply both to (1) funding to such organizations for carrying out approved programs or projects in the less developed countries (to be known as Operational Grants) and (2) to grants to strengthen the capacities of selected private and voluntary organizations to plan, design, manage and evaluate development programs and projects (to be known as Management Support Services Grants - MSSs).

While AID is increasing the funds to be made available for partial support of expanded development assistance activity by private and voluntary organizations, overall funding limitations do not make it possible for all worthy organizations and projects to be funded. Accordingly, preference in the making of grants to applicant organizations, after careful review of their applications, experience and potential, shall be given to those organizations which have basic interests, objectives, development concepts, activities and plans which most clearly meet the following guidelines.

1. The basic thrust of development assistance activities should be encouragement of the creation of local motivations, capacities and entities, public or private, to act meaningfully on critical economic and social problems at hand. Activities that simply do things for developing peoples often may not contribute much to their basic development. Consequently, encouragement should be given to development assistance activities which involve meaningful participation by national, regional and community institutions in defining their mutual problems and goals. This includes their assuming responsibility for devising and operating local mechanisms for acting on their most pressing problems and the ability to carry

forward the activities developed from PVO effort. Likewise, it involves encouraging local organizations in devising realistic methods and resource applications for the solution of their problems and their acceptance of responsibility for taking meaningful actions and for accepting the consequences of acting or not acting. It is expected that local support will provide a reasonable portion of project requirements.

2. In the spirit of Guideline No. 1, and the requirements of the basic objectives of the Foreign Assistance Act as paraphrased in the background statement of this paper, preference for AID support will be given to programs in developing countries helped by the people of the United States which are directed to, and show the greatest promise of meeting, the most urgent needs of the people who constitute the poorest majority and are often beyond the reach of public services. This would include strong consideration of capability/readiness of private and voluntary organizations to work in areas of special emphasis or priority identified by AID on the basis of program requirements in areas determined to need greater attention in countries or regions of proposed operation. Assessment of probable effectiveness will be based on such factors as the following: potential for reaching large numbers of people at low enough per capita cost to be financed from the resources of the developing countries (positive quality of life); impact on poor people (employment income); clarity of definition of the participant group; plans of the grantee, or tie-in with other programs which assure complementary efforts necessary to provide a higher standard of living to the target group; and potential interest and capacity of the grantee or other organizations to spread the program to large numbers of people over an extended period of time.

Additional program considerations to be applied would include the sound use of resources, public and private, selection of an appropriate technology for the project and the particular circumstances of those receiving assistance, and involve considerations specific to particular locales such as regional and national jurisdictions, ecological zones, and cultural groups. Also PVO participation in development activities might be especially relevant to country situations, such as those of the least developed countries, requiring U.S. assistance beyond the scope of existing AID programs.

Some illustrations may be helpful:

-- Preference would be for low cost preventive health delivery systems taking into account the capacity of the government to extend services to a large segment of the population over the long term.

-- Assistance in agricultural production would need to be preceded by assurance that required supportive resources, including credit, marketing assistance, storage, materials and techniques, and transport and communication facilities will be available.

-- Vocational education for both men and women should be linked to adequate employment opportunities. Rural education should relate to the most basic needs, such as health and agricultural production, and inputs necessary for health and agricultural improvements should be planned for by the grantee or another source.

3. Foreign Assistance Program funds provided to private and voluntary organizations to carry out approved programs and projects under both types of grants, DPG and operational, should be made available on a specific time basis, but with a possibility for continuing in the same or amended form for subsequent fixed periods. Responsible AID and private voluntary organization officials at the time applications for AID funds are under consideration, and preferably at even earlier points in determining LDC needs, should develop a mutual understanding as to program or project objectives, strategies, desired or expected results in agreed-upon time periods, and evaluation methods. Joint program reviews will be held at reasonable periods. These should lead to definite judgments by responsible AID officials as to whether the programs and projects of private and voluntary organizations partially supported with AID funds have met the agreed-upon goals and remain consistent with these guidelines.

4. Development assistance activities normally cannot be expected to solve the problems of the developing countries. At best, the development agencies, public and private, can help illuminate for developing country governments and groups promising paths toward solution of problems. Promising ideas or approaches can be devised and tested, and through training and practice, local capacities can be built up. In time, some of the ideas and approaches may offer

good potential for extended application in meeting the actual needs of the people who constitute the poorest majority. Clearly, approaches that require resources beyond the reasonably expected capacities of the developing countries concerned will have little true development value to them. Generally, therefore, programs and projects helped with AID funds should, when executed, offer solid potential for wide-scale application in the particular developing countries concerned or elsewhere, and be supportable within the levels of resources, including skilled manpower and funds, that such countries might reasonably expect to have available to them for use in these respects.

5. Development assistance funds from AID under this policy will be directed to the expansion of the scope of private and voluntary organization project activities of high merit or initiation of new project efforts expected to bring about significant improvement in the lives of the people who constitute the poorest majority. Provisions of AID funds are intended to assist grantees in developing added or new capacities and activities rather than simply to supplant current non-AID funding. Innovative projects should be encouraged.

6. The extent of private U.S. support available over time, whether financial or in kind, will be a consideration in determinations affecting AID funding of activities which have high substantive merit. In addition to the aforementioned consideration, it is recognized that the capabilities of organizations differ and may require assessment of individual proposals on their merits and in the context of those capabilities. Mobilization of private support is important both as a demonstration of unofficial American interest and as a complement to the severely limited appropriations available. Furthermore, substantial private support is conducive to the collaboration among equals that both AID and the private and voluntary organizations desire, and helps avoid compromising the independence of the private and voluntary organizations.

7. Private and voluntary organizations exist in great numbers with diverse interests and capacities. Given the finite levels of available resources, steadily rising costs and the consistent need to bring all pertinent talent to bear on development assistance problems, there will be increasing opportunities for the linking of separate but related talents. Clearly, there can be great value to all concerned in the evolution of processes that enable private and voluntary organizations to combine their talents and resources to produce ranges of competence and capacity beyond the potential of the collaborating organizations if they each were to operate alone. AID

will not attempt to impose any particular consortia requirements. However, in a process of mutual exploration and encouragement, special encouragement will be given to grants to combinations of private and voluntary organizations, including multilateral agencies and LDC private organizations that can work out amalgamations of resources and/or divisions of labor that will strengthen the coordinated application of their respective resources in the carrying forward of development assistance activities.

Eligibility Requirements: Certain requirements must be met by any private and voluntary organization if it is to receive funds from AID. These include all applicable requirements of the Foreign Assistance Act, other relevant statutes, and all applicable Executive Orders, or rules and regulations governing recipients of public funds.

1. To be eligible for receiving the operational grant funds, a private and voluntary organization must satisfy AID that it possesses managerial competence in planning and carrying out development assistance programs or projects and that it will practice mutually agreed-upon methods of accountability for funds and other assets provided by the U.S. taxpayer.

2. In considering requests for Institutional Support Grants AID will assess whether applicant organizations have the solid potential of developing within a suitable and mutually agreed-upon period, the managerial competence and methods required to plan and execute programs or projects in accordance with the criteria provided in the guidelines set forth above. Applications for DPGs will require specific identification of basic strategies and probable target countries.

3. Assistance to private and voluntary organizations will need to be preceded by assurances that other required supportive resources will be available, including consideration as to whether other necessary preconditions have been anticipated and correlated in planning the proposed activity.

4. Private and voluntary organizations that receive Foreign Assistance Program funds must be able to demonstrate that their activities, whether directly or through indigenous agencies, are acceptable to host country governments and that they have formal or informal acceptance to function in agreed-upon ways and for agreed-upon purposes within host country jurisdictions.

5. Because of the variety of programs and legislative authorizations under which grants are made and administered, it is not possible to make sweeping statements as to the applicability of various types of legislative restrictions to all kinds of grants. Therefore, AID will seek the advice of the General Counsel as to what is required for particular types of grants when they are contemplated. In addition to prudent management, the following other legal requirements are of general applicability to the foreign assistance program and must be given consideration to determine whether they apply in each case:

a. U.S. flag carrier preference;

b. equal opportunity (see AID Regulation 9 which applies specifically to grants);

c. avoidance of benefit to officials;

d. source-origin requirements for procurement;

e. use of available U.S.-owned foreign currency;

f. for capital assistance projects, prior completion of plans and cost estimates and AID approval of contracts and contractors;

g. restrictions against assistance to certain countries;

h. program description and legal commitment on the part of AID sufficient to support the obligation of funds;

i. maintenance of objective standards and avoidance of favoritism in the selection of contractors and grantees.

However, apart from the above statutory requirements, grants are not normally subject to the Federal and AID Procurement Regulations. These rules and regulations will be interpreted as flexibly as possible but still must be in accordance with the acceptable procedures for the prudent management of public funds.

Appendix 4C

There follows below the revised text of AID Regulation 3 effective November 30, 1982, as published in the Federal Register on January 21, 1983 (48 F.R. 2759-2762).

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

Agency for International Development

22 CFR Part 203

Registration of Agencies for Voluntary Foreign Aid

AGENCY: Agency for International Development, IDCA.

ACTION: Final rule.

SUMMARY: This regulation is being amended in its entirety to clarify the purposes of registration and to emphasize that organizations must be private and voluntary in nature in order to be registered.

EFFECTIVE DATE: November 30, 1982.

FOR FURTHER INFORMATION CONTACT: Deborah Mace (703) 235-1684.

SUPPLEMENTARY INFORMATION: On December 8, 1981, the Agency published in the Federal Register (46 FR 60009-13) a proposed revision of Part 203. An extension of the comment period from January 3, 1982 to March 3, 1982, was published in the Federal Register on February 1, 1982 (47 FR 4535-36).

The agency received comments from eighty-five private individuals as well as comments from organizations, and AID overseas missions. The following summarizes the principal comments, and actions taken:

1. *Purpose.* The statement of purpose of § 203.1 was amended to indicate that the principal purpose of registration is to facilitate cooperation between AID and the private sector and to indicate that registration also serves as a basis for computing the amount of funding made available to private and voluntary organizations (PVOs) and whether a PVO meets the twenty percent test of section 123(g) of the Foreign Assistance Act of 1961, as amended ("FAA").

2. *Twenty Percent Test.* The proposed rule required as a condition of registration that twenty percent of PVO's overseas program costs be from private U.S. sources. However, after publication of the proposed rule, section 123(g) of the FAA became law. The twenty percent test of section 123(g) was different in several respects from the test of the proposed rule and the agency extended the comment period to provide for comments on the effect of section 123(g).

Almost all of the eighty-five comments from the general public were directed towards the twenty percent test and, without exception, were opposed to the test of the proposed regulation.

The requirement for twenty percent private funding has been deleted completely from the rule. Therefore, the twenty percent test is not a condition for registration. However, the twenty percent test of section 123(g) of the FAA will be used as a condition of eligibility for the PVO grant program as stated in § 203.1(e). The requirements of section 123(g) are effective on January 1, 1985. In the intervening period, the Agency will encourage a progressive phase-in.

3. *Citizenship of Board Members.* The proposed regulation deleted the requirement that the governing body be composed principally of U.S. citizens. The only comment received on this change was favorable.

4. *Presidential Task Force on Regulatory Relief.* One suggestion was to submit the regulation to the Presidential Task Force on Regulatory Relief chaired by Vice President Bush to provide the private and voluntary community an opportunity to comment on the proposed regulations. Pursuant to the requirement of Executive Order 12991 the regulation in both proposed and final form has been submitted to, and reviewed by, the Office of Regulatory Review of OMB which functions as the staff office of the Task Force.

5. *IRS Statements of Tax Exemptions.* One respondent suggested that the agency use the list of 501(c)(3) organizations published periodically by the IRS, rather than requiring a copy of the Statement of Tax Exemption. This was not adopted for several reasons. Applicants are often new organizations that have just received their tax exempt certificate and would not be on the IRS list. Moreover, the Statement of Tax Exemption is required only at the time of initial registration and need not be submitted annually. Therefore, its submission poses little, if any, administrative burden.

6. *Section 501(c)(6) Organizations.* One commentator noted that the reference in the proposed regulations to "cooperatives or credit union under section 501(c)(6)" of the Internal Revenue Code is inconsistent because credit unions are exempt under IRC section 501(c)(14) and most 501(c)(6) organizations are not cooperatives as that term is used in IRC section 1381(a)(2). Section 203(c)(1) has been amended to delete the reference to cooperatives and credit unions, thus retaining only the reference to IRC section 501(c)(6). The reference was intended to refer to nonprofit associations of credit unions and cooperatives which qualify as 501(c)(6) organizations; it was not intended to refer to for-profit cooperatives and credit unions which are governed by other provisions of the Internal Revenue Code.

The information collection requirements in §§ 203.2 and 203.3 have been reviewed and approved by OMB pursuant to 44 U.S.C. Chapter 35 and have been assigned number 0412-0035.

List of Subjects in 22 CFR Part 203

Foreign aid, Nonprofit organizations.

Accordingly, Part 203 of Chapter II of Title 22 of the Code of Federal Regulations is revised as follows:

PART 203—REGISTRATION OF AGENCIES FOR VOLUNTARY FOREIGN AID

Sec.
203.1 Purpose.
203.2 Conditions of registration and documentation requirements for U.S. private and voluntary organizations.
203.3 Annual requirements.
203.4 Certificates of registration.
203.5 Denial of registration and reconsideration.
203.6 Registration of foreign private and voluntary organizations.
203.7 Termination of registration.
203.8 Delegation of authority.
203.9 Access to records.
203.10 Waiver authority.

Authority: Sec. 621, Foreign Assistance Act of 1961, as amended (22 U.S.C. 2381).

§203.1 Purpose.

(a) AID maintains two registries of PVOs engaging in, or intending to engage in, voluntary foreign aid operations—one of U.S., the other of foreign PVOs. The registry facilitates cooperation between AID and the nonprofit private sector by providing a mechanism for identifying which organizations are eligible for AID resources intended for PVOs.

(b) Registration is a condition of eligibility for assistance under Sections 123b and 607(a) of the FAA (the payment of transportation charges and the sale of services or commodities such as excess property) and confers a preference for assistance under Section 202 of Pub. L. 480. Other eligibility requirements apply, however, including a program review.

(c) Registration is a condition of eligibility for assistance under the "PVO grant program." However, it is only one of several eligibility requirements for such assistance. Others include: (1) Program review; (2) pre-grant award review, including compliance with OMB Circulars A-110 and A-122; and (3) funding requirements of Section 123(g) of the FAA.

(d) The registry serves as the basis for computing the amount of AID funding made available to PVOs.

(e) Registration provides the information necessary to determine whether a PVO meets the funding requirements of Section 123(g) of the FAA. Section 123(g) provides that a PVO must obtain at least 20 percent of its total annual financial support for its international activities from sources other than the United States Government to be eligible to receive funding under the PVO grant program. Further, a preference is given to those PVOs which receive cash from private, i.e., nongovernmental, sources.

(f) It is not the purpose of registration to make, or enable to be made, any representation to the public concerning the meaning of being registered.

(g) Definitions: As used in this part:

(1) "AID" means Agency for International Development.

(2) "FAA" means the Foreign Assistance Act of 1961, as amended, 22 U.S.C. 2151 *et seq.*

(3) "Funds from private U.S. sources" means cash contributions received from private nongovernmental U.S. sources, e.g., private individuals, groups, foundations and corporations. Cash contributions received directly or indirectly from the U.S. Government, state or local governments, the United Nations and other public international organizations, and foreign governments, institutions and individuals are not included. All in-kind contributions are excluded.

(4) "Overseas program costs" means the costs of all voluntary foreign aid operations conducted outside the U.S. and includes that portion of applicable indirect costs incurred in the U.S. (excluding fund-raising costs) necessary to carry out those voluntary foreign aid operations.

(5) "Pub. L. 480" means the Agricultural Trade and Development Assistance Act of 1954, as amended. 7 U.S.C. 1691 *et seq.*

(6) "PVO" means private and voluntary organizations.

(7) "PVO grant program" means those grants which AID has determined as a matter of policy can be made to only those PVOs which are registered and which meet the funding requirements of Section 123(g) of the FAA, 22 U.S.C. 215u(g).

(8) "Subventions" means (i) The payment of transportation charges under Section 123(b) of the FAA, 22 U.S.C. 215u(b); (ii) The sale of services or commodities, e.g., excess property, under Section 607(a) of the FAA, 22 U.S.C. 2357(a); and (iii) The furnishing of agricultural commodities under Section 202 of Pub. L. 480, 7 U.S.C. 1722.

§ 203.2 Conditions of registration and documentation requirements for U.S. private and voluntary organizations.

An applicant shall be registered with A.I.D. as a U.S. PVO if A.I.D. finds that the applicant has satisfied all the conditions and documentation requirements of registration listed below. An applicant seeking registration shall submit to A.I.D., Washington, D.C. 20523, the documentation listed below accompanied by a letter stating the reasons for seeking registration signed by its chief executive officer and supported by a resolution of its governing body. In addition, the applicant shall submit such other information as A.I.D. may reasonably require to determine if the applicant should be registered.

(a) *Condition and Documentation Requirement No. 1.*—(1) *Condition.* That the applicant is a private nongovernmental organization which is organized under U.S. law and maintains its principal place of business in the United States and is not a university, college, accredited degree-granting institution of education, private foundation, organization engaged exclusively in research or scientific activities, church, or organization engaged exclusively in religious activities.

(2) *Documentation Requirement.* Articles of incorporation, bylaws, relevant documents establishing its legal status, and a statement as to the location of the organization's principal offices.

(b) *Condition and Documentation Requirement, No. 2.*—(1) *Condition.* That the applicant receives funds from private U.S. sources, as defined in paragraph (g)(3) of § 203.1.

(2) *Documentation Requirement.* The latest audited financial statement (see Condition No. 6 at § 203.2(f) below).

(c) *Condition and Documentation Requirement No. 3.*—(1) *Condition.* That the applicant is a nonprofit organization and has a tax exemption under any one of the following provisions of the Internal Revenue Code: Section 501(c)(3), except private foundations under Section 509(a)(2); as a social welfare organization under Section 501(c)(4); Section 501(c)(5); or Section 501(c)(6).

(2) *Documentation Requirement.* IRS Statement of Tax Exemption, and a copy of IRS Form 990 or 990-PF "Return of Organization Exempt from Income Tax," or one comparable to the Internal Revenue Service document.

(d) *Condition and Documentation Requirement No. 4.*—(1) *Condition.* That the applicant is a voluntary organization, i.e., receives voluntary contributions of money, staff time or in-kind support from the general public.

(2) *Documentation Requirement.* Latest annual report (or similar document) and audited financial statement (see Condition No. 6 at § 203.2(f)).

(e) *Condition and Documentation Requirement No. 5.*—(1) *Condition.* That the applicant is, or anticipates becoming, engaged in voluntary charitable or development assistance operations abroad (other than religious), including but not limited to services of relief, rehabilitation, disaster assistance, development assistance, welfare, training, or program support and coordination for such services, in the fields of health, education, population planning, nutrition, agriculture, industry, environment, ecology, refugee services, emigration, resettlement, and development of capacities in indigenous PVOs and institutions to meet basic human needs; and that such operations are consistent with its articles of incorporation and related documentation included in the application, and with the broad purposes of the Foreign Assistance Act and Pub. L. 480.

(2) *Documentation Requirement.* Latest annual report (or similar document) describing the development assistance operations. For organizations who anticipate initiating overseas activities, a statement should be included in the letter accompanying the registration documentation describing steps taken to date to undertake a program of development assistance overseas.

(f) *Condition and Documentation Requirement No. 6.*—(1) *Condition.* That the applicant accounts for its funds in accordance with generally accepted accounting principles ("GAAP"); has a sound financial position as evidenced by its audited financial statements; and exercises financial planning through the preparation of an annual budget for the year subsequent to that covered in the annual audit.

(i) Further tests of the financial management systems of a PVO are part of the A.I.D. pre-grant award process. In judging the financial management systems of grant applicants the requirements set by the Office of Management and Budget (OMB) Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and other Nonprofit Organizations," Attachment F, "Standards for Financial Management Systems" will apply, and by reference, OMB Circular A-122 "Cost Principles for Nonprofit Organizations" will also apply. The determination as to whether an applicant can conform to these requirements is made through a pre-grant award review which is the responsibility of the grant officer with information provided by the A.I.D. Inspector General.

(2) *Documentation Requirement.* The most recent audited financial statement including Balance Sheet, Statement of Support, Revenue and Expenditure and Statement of Change in Financial Position prepared in accordance with generally accepted accounting principles ("GAAP") disclosing administrative, program, and fund-raising costs; and separately disclosing overseas program costs and sources and amounts of funds received for overseas programs. The audit shall be conducted by an independent Certified Public Accountant in accordance with the generally accepted auditing standards ("GAAS") of the "Statement on Auditing Standards" of the American Institute of Certified Public Accountants. A budget for the year subsequent to that covered in the year reported in a format consistent with the audit, including the detailing of anticipated amounts and sources of support and revenue.

(i) New organizations which have been incorporated less than a year must provide an independent CPA's statement that financial statements can be prepared in accordance with GAAP, along with an unaudited financial statement covering the period between incorporation and application for registration. The CPA's statement for new organizations will also indicate whether the organization has installed internal controls to enable the execution of an audit in accordance with the applicable auditing standards at the end of the first year of operations.

(g) *Condition and Documentation Requirement No. 7.*—(1) *Condition.* That the applicant has a Board of Directors which meets at least annually, whose members serve without compensation for such services, and that paid officers or staff members do not constitute a majority in any decision.

(2) *Documentation Requirement.* A statement indicating that paid officers or staff members who serve on the Board do not constitute a majority in any decision and members of the governing body receive no compensation for their services on that body; the names and addresses of members; and minutes of meetings or excerpts from minutes which demonstrate that the Board holds meetings at least annually.

(h) *Condition and Documentation Requirement No. 8.*—(1) *Condition.* That the applicant expends and distributes its funds and resources in accordance with the stated purposes of the organization, without unreasonable cost for salaries, promotion, publicity, fund raising and administration, at home or abroad, and provides public disclosure of its financial circumstances.

(i) In determining whether an applicant obtains, expends, and distributes its funds without unreasonable cost for promotion, publicity, fund raising, and administration, A.I.D. shall consider fund raising costs as presumptively unreasonable if they exceed 20 percent of the total cash and in-kind contributions to the organization (as reflected in the audited financial statement).

(ii) An applicant for registration or a registered agency whose fund raising costs exceed the 20 precent limitation must demonstrate that such costs are not unreasonable in light of the nature of the organization's operations. Upon such a showing, A.I.D. may permit exceptions to the 20 percent limitation on a case-by-case basis.

(iii) "Contributions" as used in this section, include U.S. Government financial support, both cash and in-kind, as well as private support; similarly, it is expected that fund raising costs will include costs incurred in securing government contributions.

(2) *Documentation Requirement.* A certification that audited financial statements are available to the public upon request and a statement indicating salaries and allowances of the top five principal headquarters positions (determined by salary level) and country director positions. When provided directly by the applicant, salaries and/or allowances may be valued at actual cost; when provided by the recipient country or local institution, they may be valued at fair market value. Any other documentation or evidence which the applicant wishes to submit addressing the degree to which annual program spending has been consistent with the stated purposes of the organization and annual expenses are reasonable in amount.

§ 203.3 Annual requirements.

In order to maintain its registration, each registered PVO shall submit annually, within 180 days after the close of the fiscal year, the following documents: An independently audited financial statement; a report of income and expenditures (A.I.D. Form 1550-2), which is relatable to the audited financial statements; an annual report (or similar document); a copy of IRS Form 990 or 990-PF; a budget for the new fiscal year; and a statement that all other circumstances described in the original registration material remain unchanged except as noted. A.I.D. may revise the above list of documents from time to time. In addition, each registrant shall submit such other information as A.I.D. may reasonably require to determine that the organization continues to meet the conditions of registration.

§ 203.4 Certificates of registration.

Certificates of Registration will be issued by A.I.D. to applicants which A.I.D. finds satisfy the conditions and documentation requirements for registration set forth in § 203.2.

§ 203.5 Denial of registration and reconsideration.

(a) *Notification of denial of registration.* If A.I.D. decides to deny an applicant registration, the applicant will be informed in writing of the denial with a specific statement of those conditions and documentation requirements of registration in § 203.2 that the applicant has failed to satisfy.

(b) *Reconsideration.* An applicant may, within 30 days after receipt of a notification of denial of registration, request that A.I.D. reconsider its application for registration and may submit additional information to A.I.D. bearing on its suitability for registration. An applicant requesting reconsideration will be informed in writing of A.I.D.'s decision upon reconsideration. In addition, A.I.D. may, at its own discretion, reconsider a denial of registration at any time.

(c) An applicant may resubmit an application for registration in accordance with § 203.2 at any time.

§ 203.6 Registration of foreign private and voluntary organizations.

(a) For the purpose of this part, foreign PVOs shall consist of the following:

(1) An "indigenous" PVO is a non-U.S. PVO which conducts operations in the country under the laws of which it is organized.

(2) A "regional" PVO is a non-U.S. PVO that is organized under the laws of a country in an A.I.D. geographic region, and conducts operations in more than one country in that region but not in more than one such region.

(3) A "third country" PVO is a non-U.S. PVO which is not organized under the laws of any country in the A.I.D. geographic region or regions in which it conducts its operations.

(4) An "international" PVO is an organization which is not registered as a U.S. PVO, receives funds from two or more countries, has an international governing body, and conducts operations in one or more A.I.D. geographic regions.

(b) Foreign PVOs shall be registered in accordance with guidance for eligibility of non-U.S. private and voluntary organizations for participation in A.I.D.-supported programs approved by the Deputy Administrator of A.I.D., March 15, 1978 and A.I.D. handbooks, policies, regulations (published or otherwise) and procedures as they may be amended, supplemented or supported from time to time.

§ 203.7 Termination of registration.

(a) Registration shall remain in force until: (1) Relinquished voluntarily by the registrant upon written notice to A.I.D.; or

(2) Terminated by A.I.D. for failure of the registrant to fulfill and maintain the conditions of registration.

(b) Termination proceedings pursuant to § 203.7(a)(2) above shall include prior written notice to the registrant of the grounds for the proposed termination and opportunity for the registrant to file a written statement as to why its registration should not be terminated.

§ 203.8 Delegation of authority.

(a) The authority to register and to terminate registrations is delegated to: (1) The Assistant Administrator for Food for Peace and Voluntary Assistance, or his/her designee for U.S., international, and third country PVOs.

(2) The Regional Assistant Administrator, or their designees, for regional PVOs within their respective regions; and

(3) The principal A.I.D. officer, or, if there is none, the United States Ambassador, or their designees, for indigenous PVOs.

(b) Notices of registration and terminations of registration issued by the officials in paragraphs (a) (2) and (3) of this section will be forwarded to the Bureau for Food for Peace and Voluntary Assistance within 30 days for inclusion in the registry.

§ 203.9 Access to records.

All records, reports, and other documents which are made available to A.I.D. pursuant to this part shall be made available for public inspection and copying pursuant to and under the procedures established by the public information regulation (22 CFR Part 212) of the Agency for International Development.

§ 203.10 Waiver authority.

The Administrator of the Agency for International Development or his/her designee may waive, withdraw, or amend from time to time, any or all of the provisions of the regulations in this part.

Dated: November 30, 1982.

Julia Chang Bloch,

Assistant Administrator for Food for Peace and Voluntary Assistance.

[FR Doc. 83-1082 Filed 1-20-83; 8:45 am]

ANNEX 1 TO APPENDIX 4C

ELIGIBILITY OF NON-U.S. PRIVATE AND VOLUNTARY AGENCIES FOR PARTICIPATION IN AID-SUPPORTED PROGRAMS

1. Background:

As of October 1, 1977, any U.S. private voluntary organization seeking either a project or program grant or wishing to receive other forms of support1/ administered by the Agency for International Development authorized by the Foreign Assistance Act and the Agricultural Trade and Development Act must be registered. AID has recently revised and expanded the registration process for all U.S. private and voluntary organizations seeking such support. Under current legislative guidelines, this process is conducted by A.I.D.

Amendments to the Foreign Assistance Act of 1961, as amended (FAA), and the Agricultural Trade Development and Assistance Act of 1954, as amended (PL 480),2/ have extended the availability of certain resources under those Acts to foreign nonprofit voluntary agencies registered with, and approved by, A.I.D. when no U.S. PVO is available to provide the assistance. Section 607 of the FAA has been amended to permit registered foreign PVOs to obtain services and commodities on a reimbursable and advance-of-funds basis, and section 202(a) of P.L. 480 has been amended to allow the furnishing of agricultural commodities under Title II through registered foreign PVOs (including both third-country and indigenous PVOs). The amendments require that regulations be issued governing registration with and approval by A.I.D. of foreign non-profit voluntary agencies. Although the new amendments do not establish a legal requirement for registration of foreign PVOs as a condition for receipt of other forms of assistance which they may otherwise be authorized to receive under the FAA or P.L. 480, as a matter of policy we also intend to require certification of eligibility for all non-U.S. PVOs receiving grant assistance under Sections 103, 104, 105 and 106 of the FAA.

1/ Frequently called "subventions" these include reimbursement of ocean freight shipping costs, grants of excess U.S. Government property, and grants of Title II P.L. 480 commodities.

2/ Section 122 and 208 of the International Development and Food Assistance Act of 1977, P.L. 95-88, 91 Stat. 533, August 3, 1977.

This document describes the process for registering non-U.S. voluntary agencies, including LDC host country institutions (sometimes referred to as "indigenous" PVOs), regional institutions which operate in LDCs on one continent (Africa, Asia, and Latin America), and other foreign, non-LDC (third country) and international institutions.

AID recognizes that cultural and legal systems of other countries may, of necessity, require the application of different standards and requirements to determine the eligibility of voluntary agencies for participation in AID's programs. Local tradition and law may not give formal recognition to charitable or even not-for-profit organizations, even though in practice these may exist in a particular country. Similarly, uniform standards of accountability, financial management, or controls on voluntary giving may not yet exist. Determination of eligibility of non-U.S. PVOs will frequently depend on the informed judgment of the responsible officers. Nonetheless, a number of basic principles can be applied in almost every setting.

II. Preliminary Considerations

AID recognizes that "voluntarism" can take several forms, any one of which provides a reasonable basis for measuring the "voluntary" character of a particular organization. For example,

-- a group of persons voluntarily organized for some specific purpose may constitute a voluntary agency;

-- an organization which acquires its funds through voluntary donations from the general public is a voluntary agency;

-- an agency which draws upon "volunteer" services of the general public for the performance of some aspects of its activities may be a voluntary agency.

Regional Bureaus and USAIDs now make project grants (i.e., OPGs) to host country voluntary agencies. The same standards that govern eligibility of U.S. agencies, however, cannot be applied to non-U.S. PVOs. Therefore, a special certification of eligibility for each non-U.S. voluntary agency which receives AID support shall be established by each Mission or Bureau as appropriate. PVOs certified to be eligible for AID support will be determined at three levels:

a. Host country voluntary agencies domiciled and operating in one country will be certified as eligible by the principal AID officer in the country. If there is no AID Mission or office, a designated officer in the U.S. Embassy shall make the determination.

b. Regional voluntary agencies, that is agencies operating in more than one country within a geographic bureau's jurisdiction, will be certified as eligible by the Assistant Administrator of that Bureau.

c. Foreign (third country) and international private and voluntary organizations will be determined eligible by the Assistant Administrator of Food for Peace and Voluntary Assistance (FVA).

III. Conditions of Eligibility of Non-U.S. Private and Voluntary Organizations

To be eligible, a "voluntary" agency must be philanthropic and/or public service oriented in purpose. It must also be nonprofit, nonpolitical, and nongovernmental. Excluded from eligibility are research organizations and universities, colleges, other similarly structured and accredited institutions of learning, and churches or organizations engaged exclusively in religious activities. A prospective registrant should be able to demonstrate to the satisfaction of the reviewing officer that:

a. It is a legal entity organized under laws of the country in which it is domiciled.

b. It is a private, non-government entity and receives funds from private sources.

c. It is a voluntary organization, i.e., receives voluntary contributions of money, staff time or in-kind support from the public.

d. It operates on a not-for-profit basis and has tax exemption under the laws of its country of domicile/operation, if such laws exist and are appropriate.

e. It is engaged in voluntary charitable or development assistance operations of a nonreligious nature which are consistent with the purposes and objectives set forth in the Foreign Assistance Act or PL 480 and described in the application and supporting documents submitted to the USAID, Regional Bureau, or FVA Bureau.

f. It prepares an annual financial statement and that this statement indicates the organization has the financial resources to enable it to perform its normal functions in the absence of AID support.

g. It is controlled by an active and responsible governing body which maintains effective policy and administrative control, which meets at least annually and whose members serve without compensation; if paid officers serve on the governing body they can not constitute a majority in any decision.

h. Under its own established priorities and programs, it obtains, expends, and distributes its funds and resources in conformity with accepted ethical standards, without unreasonable cost for promotion, publicity, fund raising and administration.

IV. Registration Documentation to be Furnished in Support of Certification of Eligibility

a. Articles of incorporation, by-laws, constitution, or other relevant documents which describe the purpose of the organization, its methods of management, and scope of program.

b. Copy of statement of tax exemption, if available.

c. Latest financial statement prepared by an independent (chartered) accountant/auditor who can certify, in accordance with generally accepted accounting principles, that the organization is financially viable. For international and their country organizations, these statements must be in English.

d. Current budget, detailing sources of income, administrative (personnel and related overhead) expenses, and program costs.

e. Annual report of program activities (within last year) or document of similar import.

f. Names and addresses of members of Board of Directors; average number of times Board meets in a year.

In the absence of these specific documents, the approving officer should use his discretion in accepting substitutes which provide the same or equivalent information.

To maintain the conditions of certification of eligibility, organizations are required to supply the following information materials annually within 180 days after the close of their fiscal years:

a. Annual financial statements, preferably audited, including a statement of income and expenditures.

b. Current operational year budget detailing sources of income, administrative expenses and program costs.

This information could also be provided as part of annual progress reports for ongoing projects.

V. Certification of Eligibility and Notification to AID/W

The principal AID officer or, where there is no AID establishment, Embassy officer shall determine whether on the basis of documents available and, taking into account local law and practices, the host country organization meets the conditions set out in Section III above.

The AID Mission/Embassy may wish to engage the services of local legal counsel and accountant to assist in analyzing the documents used as a basis for eligibility. The procurement of legal services abroad will be in accordance with Chapter 16, AID Handbook 23.

Each non-U.S. PVO certification will be reported by the concerned bureau to the Office of Private Voluntary Cooperation, FVA Bureau, for inclusion in the Registry of non-U.S. PVOs. A one-page summary describing the non-U.S. PVO and the documents reviewed by the certifying officer shall accompany the notice of certification.

The funds obligated for each PVO shall be reported to FVA/PVC at six month intervals, with a summary report not less than 30 days after the end of each fiscal year.

APPENDIX 4D

U.S. PRIVATE VOLUNTARY ORGANIZATIONS REGISTERED WITH THE AGENCY FOR INTERNATIONAL DEVELOPMENT

MARCH 1984

REGISTERED U.S. PRIVATE VOLUNTARY ORGANIZATIONS AS OF MARCH 1984

Accion International/AITEC (AITEC)
10-C Mount Auburn Street
Cambridge, Massachusetts 02138
(617)492-4930

Executive Contact:
Mr. William W. Burrus
Executive Director

African-American Institute (AAI)
833 United Nations Plaza
New York, New York 10017
(212)949-5666

Executive Contact:
Mr. Donald Easum
President

African-American Labor Center (AALC)
1125 15th Street, N.W. Suite 404
Washington, D.C. 20005
(202)429-0050

Executive Contact:
Mr. Patrick J. O'Farrell
Executive Director

African Medical and Research Foundation (AMREF)
420 Lexington Avenue, Suite 556
New York, New York 10170
(212)986-1835

Executive Contact:
Dr. Michael Gerber
Executive Director

African Wildlife Leadership Foundation (AWLF)
1717 Massachusetts Avenue, N.W., Suite 602
Washington, D.C. 20036
(202)265-8394

Executive Contact:
Mr. Robert P. Smith
President

Africare (AFRICARE)
1601 Connecticut Avenue, N.W. Suite 600
Washington, D.C. 20009
(202)462-3614

Executive Contact:
Mr. C. Payne Lucas
Executive Director

Aga Khan Foundation (KHAN)
1850 K Street, N.W., Suite 885
Washington, D.C. 20006
(202)293-2537

Executive Contact:
Mr. Tajdin Mitha
Executive Vice President

Agricultural Cooperative Development International (ACDI)
6th Floor Continental Building
1012 14th Street, N.W.
Washington, D.C. 20005
(202)638-4661

Executive Contact:
Mr. Donald H. Thomas
President

REGISTERED U.S. PRIVATE VOLUNTARY ORGANIZATIONS
AS OF MARCH 1984

Agricultural Development Council (ADC)
725 Park Avenue
New York, New York 10021
(212)517-9700

Executive Contact:
Mr. Theodore M. Smith
President

Agua del Pueblo (AGUA)
3421 M Street, N.W., Suite 333
Washington, D.C. 20007
(202)965-0087

Executive Contact:
(Vacant)
U.S. Contact

Aid to Artisans, Inc. (AA)
64 Fairgreen Place
Chestnut Hill, Massachusetts 02167
(617)277-7220

Executive Contact:
Mr. James S. Plant
President

America-Mideast Educational and
Training Services (AMIDEAST)
1717 Massachusetts Ave., N.W., Suite 100
Washington, D.C. 20036
(202)797-7900

Executive Contact:
Mr. Orin Parker
President

American Association for Bikur
Cholim Hospital, Jerusalem (BCHOL)
119 Fifth Avenue
New York, New York 10003
(212)260-4260

Executive Contact:
Rabbi Oswald Besser
President

American Bureau for Medical
Advancement in China (AMEDCHI)
2 East 103rd Street
New York, New York 10029
(212)860-1990

Executive Contact:
Dr. John R. Watt
Executive Director

American Committee for Shaare Zedek
Hospital in Jerusalem (SZEDEK)
49 West 45th Street
New York, New York 10036
(212)354-8801

Executive Contact:
Mr. Robert R. Frankel
Director of Purchasing

American Dentists for Foreign Service (AMDENT)
619 Church Avenue
Brooklyn, New York 11218
(212)436-8686

Executive Contact:
Dr. Herman Ivanhoe
Director

REGISTERED U.S. PRIVATE VOLUNTARY ORGANIZATIONS
AS OF MARCH 1984

American Friends of Kiryat Sanz Hospital (KSANZ)
18 West 45th Street, Room 1619
New York, New York 10036
(212)944-2690

Executive Contact:
Rabbi Yerachmiel Milstein
Executive Director

American Friends Service Committee (AFSC)
1501 Cherry Street
Philadelphia, Pennsylvania 19102
(215)241-7000

Executive Contact:
Mrs. Asia A. Bennett
Executive Secretary

American Institute for Free
Labor Development (AIFLD)
1015 20th Street, N.W.
Washington, D.C. 20036
(202)659-6300

Executive Contact:
Mr. William Doherty, Jr.
Executive Director

American Jewish Joint Distribution Committee (AJJDC)
60 East 42nd Street, Suite 1914
New York, New York 10165
(212)687-6200

Executive Contact:
Mr. Ralph I. Goldman
Executive Vice President

American Leprosy Missions (ALM)
1262 Broad Street
Bloomfield, New Jersey 07003
(201)338-9197

Executive Contact:
Mr. Waldron Scott
President

American Mizrachi Women (AMW)
817 Broadway
New York, New York 10003
(212)477-4720

Executive Contact:
Mrs. Roselle Silberstein
National President

American Near East Refugee Aid (ANERA)
1522 K Street, N.W. #202
Washington, D.C. 20005
(202)347-2558

Executive Contact:
Mr. Peter Gubser
President

American ORT Federation (ORT)
817 Broadway
New York, New York 10003
(212)677-4400

Executive Contact:
Mr. Donald H. Klein
Executive Director

REGISTERED U.S. PRIVATE VOLUNTARY ORGANIZATIONS
AS OF MARCH 1984

American Red Magen David for Israel (ARMDI)
888 Seventh Avenue, Suite 403
New York, New York 10106
(212)757-1627

Executive Contact:
Mr. Benjamin Saxe
Executive Director

American Schools of Oriental Research (AMSHOR)
4243 Spruce Street
Philadelphia, Pennsylvania 19104
(215)222-4643

Executive Contact:
Mr. Mitchell Rothman
Administrative Director

Amerishares Foundation, Inc. (AF)
1511 K Street, N.W., Suite 643
Washington, D.C. 20005

Executive Contact:
Mr. J. P. Bolduc
Executive Director

Amigos de las Americas (AMIGOS)
5618 Star Lane
Houston, Texas 77057
(713)782-5290

Executive Contact:
Mr. John Sloan
Acting Executive Director

Armenian General Benevolent Union
Central Committee of America (AGBU)
585 Saddle River Road
Saddle Brook, New Jersey 07662
(201)797-7600

Executive Contact:
Mr. Haig Messerlian
Executive Director

The Asia Foundation (TAF)
550 Kearny Street, P.O. Box 3223
San Francisco, California 94108
(415)982-4640

Executive Contact:
Mr. Haydn Williams
President

Asian-American Free Labor Institute (AAFLI)
1125 15th Street, N.W., Room 401
Washington, D.C. 20005
(202)737-3000

Executive Contact:
Mr. Morris Paladino
Executive Director

Association for Voluntary Sterilization (AVS)
122 East 42nd Street
New York, New York 10168
(212)573-8322

Executive Contact:
Mr. Hugo Hoogenboom
Executive Director

REGISTERED U.S. PRIVATE VOLUNTARY ORGANIZATIONS AS OF MARCH 1984

Simon Bolivar Foundation (BOLIVAR)
1 Gulf Western Plaza
New York, New York 10023
(212)586-6011

Executive Contact:
Mr. Gustavo Cisneros
President

Boys' Clubs of America (BCA)
771 First Avenue
New York, New York 10017
(212)557-7755

Executive Contact:
Mr. William R. Bricker
National Director

Brother's Brother Foundation (BROBRO)
824 Grandview Avenue, P.O. Box 6067
Pittsburgh, Pennsylvania 15211
(412)431-1600

Executive Contact:
Mr. Luke L. Hingson
President

Pearl S. Buck Foundation (BUCK)
Green Hills Farm, Bucks County
Perkasie, Pennsylvania 18944
(215)242-6779

Executive Contact:
Mr. John A. Shade
Executive Director

Caribbeana Council (CC)
Caribbeana House, 2016 O Street, N.W.
Washington, D.C. 20036
(202)775-1136

Executive Contact:
Mr. Walker Williams
Executive Director

Paul Carlson Medical Program (PCMED)
3305 West Foster Avenue
Chicago, Illinois 60625
(312)539-5181

Executive Contact:
Dr. Rodger Moxon
Acting Executive Director

Catholic Relief Services - USCC (CRS)
1011 First Avenue
New York, New York 10022
(212)838-4700

Executive Contact:
Mr. Lawrence A. Pezzullo
Executive Director

Center for Applied Linguistics (CAL)
3520 Prospect Street, N.W.
Washington, D.C. 20007
(202)298-9292

Executive Contact:
Dr. G. Richard Tucker
Director

REGISTERED U.S. PRIVATE VOLUNTARY ORGANIZATIONS
AS OF MARCH 1984

The Centre for Development and
Population Activities (CEDPA)
1717 Massachusetts Ave., N.W., Suite 202
Washington, D.C. 20036
(202)667-1142

Executive Contact:
Mrs. Kaval Gulhati
President

Chol-Chol Foundation for Human Development (CHOL)
P.O. Box 5665
Washington, D.C. 20016
(202)527-7642

Executive Contact:
Mr. James W. Mundell
President

Christian Children's Fund (CCF)
P.O. Box 26511
Richmond, Virginia 23261
(804)644-4654

Executive Contact:
Dr. James MacCracken
Executive Director

Church World Service (CWS)
475 Riverside Drive
New York, New York 10115
(212)870-2061

Executive Contact:
Mr. Paul McCleary
Executive Director

Community Development Foundation (CDF)
See Save the Children

Community Systems Foundation (CSF)
1130 Hill Street
Ann Arbor, Michigan 48104
(313)761-1358

Executive Contact:
Dr. William D. Drake
President

Compassion International, Inc. (COMPINT)
3955 Cragwood Drive, P.O. Box 7000
Colorado Springs, Colorado 80933
(303)594-9900

Executive Contact:
Mr. Wallace Erickson
President

Consortium for Community Self-Help (CCSH)
515 Park Avenue
New York, New York 10022
(212)688-1297

Executive Contact:
Mrs. Blanche Case
Executive Director

REGISTERED U.S. PRIVATE VOLUNTARY ORGANIZATIONS AS OF MARCH 1984

Cooperative for American Relief Everywhere (CARE)
660 First Avenue
New York, New York 10016
(212)686-3110

Executive Contact:
Dr. Philip Johnston
Executive Director

Cooperative Housing Foundation (CHF)
2501 M Street, N.W., Suite 450
Washington, D.C. 20037
(202)887-0700

Executive Contact:
Mr. Charles Dean
President

Cooperative League Fund (CLF)
1828 L Street, N.W., Suite 1100
Washington, D.C. 20036
(202)872-0550

Executive Contact:
Mr. E. Morgan Williams
President

Cooperative League of the U.S.A. (CLUSA)
1828 L Street N.W., Suite 1100
Washington, D.C. 20036
(202)872-0550

Executive Contact:
Mr. Allie Felder
Senior Vice President

Coordination in Development (CODEL)
79 Madison Avenue
New York, New York 10016
(212)685-2030

Executive Contact:
Rev. Boyd Lowry
Executive Director

Council of International Programs for Youth Leaders and Social Workers (CIPYLSW)
1001 Huron Road, Room 209
Cleveland, Ohio 44115
(216)861-5478

Executive Contact:
Dr. Thomas C. Hatcher
Secretary General

Credit Union National Association (CUNA)
5710 Mineral Point Road, Box 431
Madison, Wisconsin 53701
(608)231-4400

Executive Contact:
Ms. Carol Y. Schillios
Director

Dental Health International (DHI)
847 South Milledge Avenue
Athens, Georgia 30605
(404)546-1715

Executive Contact:
Dr. Barry Simmons
President

REGISTERED U.S. PRIVATE VOLUNTARY ORGANIZATIONS
AS OF MARCH 1984

Direct Relief International (DRI)
P.O. Box 30820
Santa Barbara, California 93130
(805)687-3694

Executive Contact:
Mr. Dennis G. Karzag
Executive Director

Docare International (DOCARE)
502 West 16th Street
Hope, Arkansas 71801
(501)777-8838

Executive Contact:
Mr. Robert G. Simmons
President

Domestic & Foreign Missionary Society for
the Protestant Episcopal Church (PECUSA)
815 Second Avenue
New York, New York 10017
(212)867-8400

Executive Contact:
Rev. John M. Allen
Presiding Bishop

Thomas A. Dooley Foundation/Intermed-USA (DOLFDA)
420 Lexington Avenue, Room 2428
New York, New York 10170
(212)687-3620

Executive Contact:
Dr. Verne Chaney
President

Tom Dooley Heritage (TDOL)
P.O. Box 1907, Grand Central Station
New York, New York 10017
(212)533-4190

Executive Contact:
Ms. Eileen Beck
Vice Chairwoman

The East Los Angeles Community Union (TELACU)
5400 East Olympic Blvd.
Los Angeles, California 90022
(213)721-1655

Executive Contact:
Mr. David C. Lizarraga
President

El Congreso Nacional de Asuntos Colegiales (CONAC)
2717 Ontario Road, N.W., Suite 200
Washington, D.C. 20009
(202)387-3300

Executive Contact:
Dr. Pepe Barron
President/Executive
Director

Esperanca (ESP)
1911 West Earll Drive
Phoenix, Arizona 85015
(602)252-7772

Executive Contact:
Mr. Charles Post
Executive Director

REGISTERED U.S. PRIVATE VOLUNTARY ORGANIZATIONS AS OF MARCH 1984

Experiment in International Living (EIL)
13 Kipling Road
Battleboro, Vermont 05301
(802)257-7751

Executive Contact:
Dr. Charles MacCormack
President

Eye Care (EYEC)
523 Eighth Street, S.E., Suite 1
Washington, D.C. 20003
(202)544-4700

Executive Contact:
Mr. E. Timothy Carroll
Executive Director

Food for the Hungry (FFH)
7729 East Greenway Road
Scottsdale, Arizona 85260
(602)955-8438

Executive Contact:
Mr. Larry Ward
President

Foster Parents Plan (PLAN)
155 Plan Way
Warwick, Rhode Island 02887
(401)738-5605

Executive Contact:
Mr. Kenneth H. Phillips
National Executive Director

Foundation for the Peoples of the South Pacific (FPSP)
200 West 57th Street, Room 808
New York, New York 10019
(212)757-8884

Executive Contact:
Rev. Stanley W. Hosie
Executive Director

Friends of Children (FRCHILD)
14 Brookside Road
Darien, Connecticut 06820
(203)655-2218

Executive Contact:
Mrs. Constance Boll
Executive Director

Victoria & Albert Gildred Foundation for Latin American Health & Education (VGILD)
1150 NW 14th Street
Miami, Florida 33136
(305)547-2113

Executive Contact:
Mrs. Victoria Gildred
President

Girl Scouts of the United States of America (GSA)
830 Third Avenue
New York, New York 10022
(212)940-7500

Executive Contact:
Mrs. Mary Frances Peters
Washington Representative

REGISTERED U.S. PRIVATE VOLUNTARY ORGANIZATIONS
AS OF MARCH 1984

Global Outreach (GO)
P.O. Box 1
Tupelo, Mississippi 38802
(601)842-4615

Executive Contact:
Dr. Sammy Simpson
Executive Director

Global Water, Incorporated (GWI)
2033 M Street, N.W., Suite 300
Washington, D.C. 20036
(202)466-3528

Executive Contact:
Mr. Peter G. Bourne
President

Goodwill Industries of America/National Office (GIA)
9200 Wisconsin Avenue
Bethesda, Maryland 20814
(301)530-6500

Executive Contact:
Mr. Robert Ransom
Director, International Operations

Hadassah (HADASSAH)
50 West 58th Street
New York, New York 10019
(212)355-7900

Executive Contact:
Ms. Aline Kaplan
Executive Director

Heifer Project International (HPI)
P.O. Box 808
Little Rock, Arkansas 72203
(501)376-6836

Executive Contact:
Mr. Alden Hickman
Executive Director

Helen Keller International (HKI)
15 West 16th Street
New York, New York 10011
(212)620-2100

Executive Contact:
Mr. John Costello
Executive Director

Hias, Inc. (HIAS)
200 Park Avenue South
New York, New York 10003
(212)674-6800

Executive Contact:
Mr. Leonard Seidenman
Executive Vice President

High Scope Educational Research Foundation (HISCOPE)
600 North River Street
Ypsilanti, Michigan 48197
(313)485-2000

Executive Contact:
Dr. David Weikart
President

REGISTERED U.S. PRIVATE VOLUNTARY ORGANIZATIONS
AS OF MARCH 1984

Holt International Children's Services (HOLT)
P.O. Box 2880
Eugene, Oregon 97402
(503)687-2202

Executive Contact:
Mr. David H. Kim
Executive Director

Holy Land Christian Mission International (HLCM)
2000 E. Red Bridge Road
Kansas City, Missouri 64131
(816)942-2000

Executive Contact:
Mr. R. Joseph Gripkey
Executive Director

Institute for International Development, Inc. (IIDI)
360 Maple Avenue West, Suite F
Vienna, Virginia 22180
(703)281-5040

Executive Contact:
Mr. Robert L. Hancock
Acting Executive Director

Institute of Cultural Affairs (ICA)
4750 North Sheridan Road
Chicago, Illinois 60640
(312)769-5635

Executive Contact:
Mr. Raymond Spencer
Director, Program
Development

Institute of International Education (IIE/NY)
809 United Nations Plaza
New York, New York 10017
(212)883-8200

Executive Contact:
Mr. Richard Krasno
President

Institute of International Law and
Economic Development (IILED)
6807 Prince Georges Avenue
Takoma Park, Maryland 20012

Executive Contact:
Mr. Arnold Liebowitz
President

Institutional Development & Economic
Affairs Service, Inc. (IDEAS)
Magnolia Star Route
Nederland, Colorado 80466
(303)443-8789

Executive Contact:
Mr. Brian Beun
President

Inter-American Development Institute (IADI)
1789 Columbia Road, N.W.
Washington, D.C. 20009
(202)483-0491

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APPENDIX 4E

AID REGULATION 2

There follows below the text of AID Regulation 2, as amended in its entirety effective July 28, 1977, per publication in the Federal Register of August 10, 1977 (42 F.R. 40428 - 40430)

..Initially effective May 4, 1963, per publication in the Federal Register of May 14, 1963 (28 F.R. 4789).

..Section 202.1(f) was revised effective July 4, 1963, per publication in the Federal Register of July 4, 1963 (28 F.R. 6874).

..Section 202.2 was revised per publication in the Federal Register of July 20, 1965 (30 F.R. 9059).

..*Revised effective August 1, 1979, per publication in the Federal Register of July 17, 1979 (44 F.R. 41425).*

DEPARTMENT OF STATE

Agency for International Development

CHAPTER II—AGENCY FOR INTERNATIONAL DEVELOPMENT, DEPARTMENT OF STATE

[AID Reg. 2]

PART 202—OVERSEAS SHIPMENTS OF SUPPLIES BY VOLUNTARY NON-PROFIT RELIEF AGENCIES

A.I.D. Regulation 2 is hereby revised as follows:

Sec.
202.1 Definition of terms.
202.2 Shipments eligible for reimbursement of freight charges.
202.3 Freight Reimbursement limitations.
202.4 Certificates.
202.5 Approval of programs, projects and services.
202.6 Applications for reimbursement of freight charges.
202.7 Documentation required for reimbursement.
202.8 Refund by suppliers and/or agencies.
202.9 Waiver authority.

Authority: 202.1 to 202.9 issued under sec. 621, 75 Stat. 424, as amended; 22 U.S.C. 2151. Interpret or apply secs. 102, 92 Stat. 937, 22 U.S.C. 2151u; E.O. 10973, 26 FR 10469, 3 CFR 1961 Supp.

§ 202.1 Definition of terms.

(a) "The Administrator" means the Administrator of the Agency for International Development.

(b) "The Committee" means the Advisory Committee on Voluntary Foreign Aid of the Agency for International Development.

(c) "Supplies" means development, relief and rehabilitation supplies shipped in support of programs approved by AID as well as administrative supplies and equipment shipped in support of such programs. In no case shall such supplies include items for the personal use of representatives of the registered agency

(d) "Agency" or "agencies" means the American Red Cross and any United States voluntary non-profit relief agency registered with and approved by the Committee.

(e) "Duty free" means exempt from all customs duties, and other duties, tolls, and taxes of any kind.

(f) "Recipient country" means any country or area in which voluntary non-profit relief agencies registered with and approved by the Advisory Committee on Voluntary Foreign Aid have programs approved by AID.

(g) "Reimbursement" means (1) payment directly to an agency by AID, or (2) payment to an agency by a banking institution in the United States acting under letter of commitment issued by AID guaranteeing subsequent reimbursement to the banking institution of such payment.

(h) "Port of entry" means an ocean port in the recipient country.

(i) "Point of entry" means the first customs point, or any otherwise designated point in a recipient country

which receives imported commodities via an ocean port not located in the recipient country.

§ 202.2 Shipments eligible for reimbursement of freight charges.

(a) In order to further the efficient use of United States voluntary contributions for development, relief, and rehabilitation in nations or areas designated by the Administrator of AID from time to time, agencies may be reimbursed by AID within specified limitations for freight charges incurred and paid in transporting supplies donated to or purchased by such agencies from United States ports or, in the case of excess or surplus property supplied by the United States, from foreign ports to ports of entry in the recipient country or to points of entry in the recipient country in cases (1) of landlocked countries, (2) where ports cannot be used effectively because of natural or other disturbances, (3) where carriers to a specified country are unavailable, or (4) where a substantial savings in costs or time can be effected by the utilization of points of entry other than ports.

(b) Shipments shall be eligible for reimbursement of freight charges only as authorized by the issuance by AID of a Procurement Authorization (Form AID 1160-4).

(c) The Office of Commodity Management, Bureau for Program and Management Services, AID, shall be responsible for determining when carriers are "unavailable."

§ 202.3 Freight reimbursement limitations.

Economic utilization of AID funds available for reimbursement to agencies for freight charges incurred and paid by such agencies for the shipment of donated or purchased supplies to a recipient country requires the following limitations on amounts reimbursable:

(a) *Ocean freight.* The amount of ocean freight charges reimbursable to an agency is limited to the actual cost of transportation of the supplies as assessed by the delivering carrier either in accordance with its applicable tariff for delivery to the discharge port or in accordance with the applicable charter or booking contract at a rate not exceeding the prevailing rate, if any, for similar freight services, or the rate paid to the supplier of ocean transportation for similar services by other customers similarly situated, as attested to by the supplier in Block 13 of Form AID 1550-1, entitled "Voluntary Agency and Carrier Certificate." (See § 202.4(a).)

(b) *Inland freight.* The amount of inland freight charges reimbursable to an agency is limited to the actual cost of transportation of supplies from pickup point in initial port of discharge to designated point of entry in the recipient country at a rate negotiated by the agency representative as attested to by such agency representative in Block 14 of Form AID 1550-1, entitled "Voluntary Agency and Carrier Certificate." (See § 202.4(b).)

(c) *Related shipping costs.* Where inland freight charges are reimbursed, expenses incurred in transferring supplies from ocean carrier to inland carrier may be reimbursed to the agency when such expenses are not for account of the ship nor included in the inland transportation charges.

§ 202.4 Certificates.

Certificates will be required as follows:

(a) *Ocean transportation.* The supplier of ocean transportation will execute Form AID 1550-1, entitled "Voluntary Agency and Carrier Certificate," in an original and two copies.

(b) *Inland transportation and related shipping costs.* Where inland transportation, including related shipping costs, is reimbursable under provisions of § 202.3, the representative of the agency will execute Form AID 1550-1, entitled "Voluntary Agency and Carrier Certificate," in an original and two copies when, in the absence of published tariffs or a prevailing rate, it is necessary to negotiate for the shipment of the supplies

§ 202.5 Approval of programs, projects and services.

(a) Prior to applying for reimbursement for freight charges, an agency must obtain AID's written approval of its programs by submitting the following information to the Chief, Public Liaison Division, Office of Private and Voluntary Cooperation, Bureau for Private and Development Cooperation, Agency for International Development, Department of State, Washington, D.C. 20523.

(1) A narrative description detailing the agency's specific country programs, objectives, projects, or services of relief, rehabilitation, disaster assistance, development assistance and welfare;

(2) Except as provided for in paragraph (b) of this section, evidence that written assurances have been obtained from the government of the recipient country that:

(i) Appropriate facilities are or will be afforded for the necessary and economical operations of the program, project, or service;

(ii) The specific program, project, or service has been accepted;

(iii) The supplies provided in support of the program, project or service will be free of customs duties, other duties, tolls and taxes;

(iv) The supplies will be treated as a supplementary resource;

(v) The supplies will be identified, to the extent practicable, as being of United States origin; and

(vi) Insofar as practicable, the supplies will be received, unloaded, warehoused, and transported cost-free to points of distribution;

(3) Evidence that:

(i) Shipments will be made only to consignees reported to AID, and full responsibility is assumed by the agency for the noncommercial distribution of the supplies free of cost to the persons ultimately receiving them, or in special cases and following notice to AID, for the sale to recipients at nominal cost or as payment for work performed to promote projects of self-help and economic development, but in no case shall supplies be withheld from needy persons because of their inability to pay or work; and

(ii) Distribution is made solely on the basis of need without regard to race, color, religion, sex or national origin;

(iii) That paragraph (a)(3)(i) and (ii) of this section are conducted under the supervision of the agency's representative specifically charged with responsibility for the program or project.

(b) Compliance with paragraph (a)(2) of this section is not required when the specific program, project, or service is within the scope of any agreement that has been concluded between the U.S. Government and the Government of the recipient country which furthers the operations of an agency acceptable to the recipient country.

(c) On approval of the agency's programs written notice thereof will be issued by AID to the agency.

§ 202.6 Application for reimbursement of freight charges.

(a) Any agency may make application for reimbursement of freight charges incurred and paid on shipments eligible under § 202.2 provided:

(1) The agency has received AID's written approval of the programs, projects, and services in accordance with §202.5.

(2) The application for reimbursement of freight charges together with documentation required under § 202.7 is submitted to the Agency for International Development, Attention: Banking and Finance Division, Office of Financial Management, Washington, D.C. 20523, or to a U.S. bank holding an AID letter of commitment.

(b) In the case of ocean transportation, the application must be submitted within 60 days of the date of the related ocean bill of lading. In the case of inland transportation the application must be submitted within 180 days of the date of the related ocean bill of lading.

§ 202.7 Documentation required for reimbursement.

Claims for reimbursement of freight charges must be supported by the following documents:

(a) *Voucher SF 1034.* "Public Voucher for Purchases and Services Other than Personal"—Voucher SF 1034 in original and three copies to be prepared by the agency requesting reimbursement of freight charges.

(b) *Bills of lading*—

(1) *To ports of entry.* Where the shipment is made to a port of entry, ocean or charter party bill of lading (or photostat) evidencing shipment from an eligible port of export as prescribed in § 202.2(a) to the port of entry. The bill of lading shall indicate the carrier's complete statement of charges including all relevant weights, cubic measurements, rates, and any applicable tariff surcharges.

(2) *To points of entry.* (i) Where the shipment is made to a point of entry and through bills of lading to designated point of entry are not issued, an ocean or charter party bill of lading (or photostat) evidencing shipment from an eligible port of export as precribed in § 202.2(a) to the port of discharge, and a receipted copy of the rail, truck, or barge bills of lading (or other acceptable commercial document) covering the transportation of the supplies from the ocean carrier's point of delivery at port of discharge to point of entry in recipient country, correctly assessed at time of loading by the land carrier for freight on a weight, measurement, or unit basis to point of entry in recipient country and from point of entry to point of delivery in the recipient country. The bill of lading shall indicate the carrier's complete statement of charges including

202.7(b)(2)(i)

all relevant weights, cubic measurements, rates and any applicable tariff surcharges.

(ii) Where shipment is made to point of entry and through bills of lading are issued, a receipted copy of the through bill of lading evidencing shipment from an eligible port of export as prescribed in § 202.2(a) to point of entry in the recipient country. The bill of lading shall include the carrier's complete statement of charges including all relevant weights, cubic measurements, rates, and any applicable tariff surcharges.

(c) *Receipted invoices.* One copy (or photostat) of the detailed invoice of the supplier of the transportation evidencing payment by the agency to the carrier. If the bills of lading required by paragraph (b) of this section meet the requirements of this subparagraph, no invoice is required.

(d) *Voluntary Agency and Carrier Certificate, Form AID 1550-1.* (i) As provided in § 202.4(a), the original and two copies of the Voluntary Agency and Carrier Certificate executed by the supplier of ocean transportation, and

(ii) As provided in § 202.4(b), the original and two copies of the Voluntary Agency and Carrier Certificate executed by the Agency.

§ 202.8 Refund by suppliers and/or agencies.

(a) *By suppliers.* Any supplier of freight to whom freight charges have been financed by AID will promptly refund to AID upon demand the entire amount, or any lesser amount specified, of such freight charges determined by AID to be in excess of the prevailing rate at time of shipment, if any, or the rate paid the supplier for similar services by other customers similarly situated.

(b) *By agencies.* Any agency to which freight charges have been paid or reimbursed under this Regulation will promptly refund to AID upon demand the entire amount, or any lesser amount specified, of inland transportation and/or related shipping costs, (1) whenever AID determines that the reimbursements were improper as being in violation of the provisions of the Foreign Assistance Act of 1961, and relevant appropriation acts, or any rules, regulations, or procedures of AID promulgated under any of these acts, or (2) whenever it is determined by the agency or AID that any of the supplies for which reimbursement was made have not been accorded duty-free status by the recipient country.

§ 202.9 Waiver authority.

The Administrator may waive, withdraw, or amend from time to time any or all of the provisions of this part.

The revised regulation shall be effective August 1, 1979.

Robert H. Nooter,

Acting Administrator, Agency for International Development.

[FR Doc. 79-21984 Filed 7-16-79; 8:45 am]

VOLUNTARY AGENCY AND CARRIER CERTIFICATE
VOLUNTARY RELIEF AGENCY SHIPMENTS

1. Procurement Authorization No.	2. Invoice Number	3. Source Country Code	4. Gross Long Tons

5. Vessel Name	Bulk	Berth	Tanker	6. Flag	7. Port of Exit	8. Date B/L

9. Name of Voluntary Agency	10. AID Code	11. Port of Debarkation	12. Point of Entry *(In Recipient Country)*

13. Certificate of Ocean Freight Supplier. (1) The undersigned hereby certifies to the Agency for International Development (AID) under penalties provided by law that (I) he is entitled under the contract of carriage to the sum charged to the shipper-voluntary relief agency and (II) the sum charged to the shipper-voluntary relief agency does not exceed the prevailing rate, if any, for similar services or the rate paid to the undersigned for similar services by other customers similarly situated.

(2) The undersigned agrees that upon request of the Administrator of AID he will promptly make refund to AID of the sum charged to the shipper-voluntary relief agency in the event of nonperformance of any of the terms of the contract of carriage or for breach of any of the terms of this certificate.

Name of firm	*Authorized signature*	*Title*	*Place executed*	*Date*

14. Certificate of Voluntary Agency. (1) Pursuant to AID Regulation 2, § 202.4(b), the undersigned certifies that (I) there were no published tariffs or prevailing rate covering the inland transportation of the shipment detailed above in blocks 3, 11, and 12, and consequently it was necessary to secure such inland transportation on a negotiated basis, and (II) the negotiated inland freight rate(s) and related costs (if any) set forth on the attached claim for reimbursement are not, to the best of his knowledge and belief, in excess of the rates charged other shippers in comparable shipments.

(2) The undersigned agrees that he will promptly refund to AID upon demand the entire amount, or any lesser amount specified, or inland transportation and/or related shipping costs (I) whenever AID determines that the reimbursements were improper as being in violation of the Foreign Assistance Act of 1961, any relevant appropriation acts, or any rules, regulations, or procedures of AID promulgated under any of these acts, or (III) whenever it is determined by the agency or AID that any of the supplies for which reimbursement was made have not been accorded duty-free status by the recipient country.

Name of voluntary agency	*Authorized signature*	*Title*	*Place executed*	*Date*

NOTE: (a) Any amendments, deletions of applicable provisions, or substitutions will invalidate these certificates.
(b) False statements herein are punishable by U.S. law.
(c) The word "Duplicate" must be written after signature on all signed copies other than the original.

AID 1550-1 (5-77)

INSTRUCTIONS

An original and two copies of form AID 1550-1 executed in accordance with the instructions following are to accompany each invoice submitted by the agency for reimbursement of (1) ocean freight charges, (2) inland freight charges, and (3) related shipping charges incurred by the agency in connection with shipment of supplies. The form may be obtained in limited quantities from banks holding letters of commitment or from the Distribution Section, AID, Washington, D.C. 20523. Forms may be reproduced provided the reproduction is identical in content, size, color, and format. While the headings of the blocks are self-explanatory, a brief description of the information required is furnished below in those cases where there may be a question as to the appropriate entry. Unless otherwise specified below, all blocks MUST be completed with either an entry of appropriate information or the letters "NA" (not applicable).

EXECUTED BY SUPPLIER OF OCEAN FREIGHT. An original and two copies of the form, executed by the supplier of ocean transporation, are to accompany each invoice and supporting bill of lading submitted for reimbursement of freight charges (including the inland freight portion to point of entry in landlocked country when the shipment moves on a through bill of lading). BLOCK 2 - Show total amount invoiced to the voluntary agency; i.e., actual charge for transporation from port of export to port of discharge, or if shipment was to a landlocked country by through bill of lading, the cost of transportation from port of export to point of entry in the recipient country. BLOCK 3 - Entry AID code "000" indicating U.S. source. BLOCK 4 - The bill of lading weight rounded to the nearest whole ton. BLOCK 10 - Enter the AID commodity code "9500." BLOCK 11 - The port of unloading. BLOCK 12 - If delivery was made to a landlocked country on a through bill of lading, show the first point of entry in the landlocked country. BLOCK 13 - A responsible official of the supplier of the ocean transportation must sign the ORIGINAL only of the the form, showing his title and the place and date of signature. If for any reason copies other than the original need to be signed, they should be clearly marked "Duplicate" after the signature. BLOCK 14 - Leave blank.

EXECUTED BY VOLUNTARY RELIEF AGENCY. An original and two copies of the form, executed by the agency, are to accompany each invoice and supporting freight documents when claim is made for reimbursement of inland freight transportation not included on a through bill of lading, or related shipping costs when such costs are not for account of the ship nor included in the inland transportation charges. BLOCK 2 - Enter the total amount for which the agency is seeking reimbursement; i.e., inland freight from pickup point at initial port of entry to point of entry in the landlocked recipient country; related shipping costs; or a combination of both. BLOCK 3 - Enter AID code "000" indicating U.S. source. BLOCK 4 - Leave blank. BLOCK 10 - Enter the AID commodity code "9500." BLOCK 11 - The port of unloading. BLOCK 12 - The point of entry in the landlocked country. BLOCK 13 - Leave blank. BLOCK 14 - A responsible official of the agency must sign the ORIGINAL only of the form, showing his title and the place and date of signature. If for any reason copies other than the original need to be signed, they should be clearly marked "Duplicate" after the signature.

OFFICE OF MANAGEMENT AND BUDGET

[Circular No. A-110]

GRANTS AND AGREEMENTS WITH INSTITUTIONS OF HIGHER EDUCATION, HOSPITALS, AND OTHER NONPROFIT ORGANIZATIONS

Uniform Administrative Requirements

JULY 1, 1976.

To the heads of executive departments and establishments.

Subject: Uniform administrative requirements for grants and other agreements with institutions of higher education, hospitals, and other nonprofit organizations

1. *Purpose.*—This Circular promulgates standards for obtaining consistency and uniformity among Federal agencies in the administration of grants to, and other agreements with, public and private institutions of higher education, public and private hospitals, and other quasi-public and private nonprofit organizations. This Circular does not apply to grants, contracts, or other agreements between the Federal Government and units of State or local governments covered by Federal Management Circular 74-7.

2. *Effective date.*—The standards in the attachments to this Circular will be applied as soon as practicable but not later than January 1, 1977.

3. *Supersession.*—This Circular rescinds and replaces parts III and IV of the Appendix to Federal Management Circular 73-7, Administration of college and university research grants.

4. *Policy intent.*—The uniform standards and requirements included in the attachments to this Circular replace the varying and often conflicting requirements that have been imposed by Federal agencies as conditions of grants and other agreements with recipients.

5. *Applicability and scope.*—Except as provided below, the standards promulgated by this Circular are applicable to all Federal agencies. If any statue expressly prescribes policies or specific requirements that differ from the standards provided herein, the provisions of the statute shall govern.

The provisions of the attachments of this Circular shall be applied to subrecipients performing substantive work under grants that are passed through or awarded by the primary recipient if such subrecipients are organizations described in paragraph 1.

6. *Definitions.*

a. The term "grant" means money or property provided in lieu of money paid or furnished by the Federal Government to recipients under programs that provide financial assistance or that provide support or stimulation to accomplish a public purpose. The term "other agreements" does not include contracts which are required to be entered into and administered under procurement laws and regulations. Grants and other agreements exclude (a) technical assistance programs, which provide services instead of money, (b) assistance in the form of general revenue sharing, loans, loan guarantees, or insurance, and (c) direct payments of any kind to individuals.

b. The term "recipient" includes the following types of nonprofit organizations that are receiving Federal funds from a Federal agency or through a State or local government:

Public and private institutions of higher education; public and private hospitals; and other quasi-public and private nonprofit organizations such as (but not limited to) community action agencies, research institutes, educational associations, and health centers.

The term does not include foreign or international organizations (such as agencies of the United Nations) and Government-owned contractor operated facilities or research centers providing continued support for mission-oriented, large scale programs that are Government-owned or controlled, or are designed as federally-funded research and development centers.

7. *Requests for exceptions.*—The Office of Management and Budget may grant exceptions from the requirements of this Circular when exceptions are not prohibited under existing laws.

However, in the interest of maximum uniformity, exceptions from the requirements of the Circular will be permitted only in unusual cases. Agencies may apply more restrictive requirements to a class of recipients when approved by the Office of Management and Budget.

8. *Attachments.*—The standards promulgated by this Circular are set forth in the Attachments, which are:

Attachment A Cash depositories.
Attachment B Bonding and insurance.
Attachment C Retention and custodial requirements for records.
Attachment D Program income.
Attachment E Cost sharing and matching.
Attachment F Standards for financial management systems.
Attachment G Financial reporting requirements.
Attachment H Monitoring and reporting program performance.
Attachment I Payment requirements.
Attachment J Revision of financial plans.
Attachment K Closeout procedures.
Attachment L Suspension and termination procedures.
Attachment M Standard form for applying for federal assistance.
Attachment N Property management standards.
Attachment O Procurement standards.

9. *Exceptions for certain recipients.*—Notwithstanding the provisions of paragraph 7 if an applicant/recipient has a history of poor performance, is not financially stable, or its management system does not meet the standards prescribed in the Circular, Federal agencies may impose additional requirements as needed provided that such applicant/recipient is notified in writing as to:

a. Why the additional standards are being imposed;

b. what corrective action is needed.

Copies of such notifications shall be sent to the Office of Management and Budget and other agencies funding that recipient at the same time the recipient is notified.

10. *Responsibilities.*—Agencies responsible for administering programs that involve grants and other agreements with recipients shall issue the appropriate regulations necessary to implement the provisions of this Circular. All portions of such regulations that involve recordkeeping and/or reporting requirements subject to the provisions of the Federal Reports Act and OMB Circular A-40 must be submitted to OMB for clearance before being introduced into use. Upon request all regulations and instructions implementing this Circular shall be furnished to the Office of Management and Budget. Agencies shall also designate an official to serve as the agency representative on matters relating to the implementation of this Circular. The name and title of such representative shall be furnished to the Office of Management and Budget not later than August 30, 1976.

11. *Inquiries.*—Further information concerning this Circular may be obtained by contracting the Financial Management Branch, Budget Review Division, Office of Management and Budget, Washington, D.C. 20503, telephone 395-3993.

JAMES T. LYNN,
Director.

ATTACHMENT A.—CIRCULAR NO. A-110

CASH DEPOSITORIES

1. This attachment sets forth standards governing the use of banks and other institutions as depositories of funds advanced under grants and other agreements.

2. Except for situations described in paragraphs 3, 4, and 5, no Federal sponsoring agency shall:

a. Require physical segregation of cash depositories for funds which are provided to a recipient.

b. Establish any eligibility requirements for cash depositories for funds which are provided to a recipient.

3. A separate bank account shall be require when applicable letter-of-credit agreements provide that drawdowns will be made when the recipient's checks are presented to the bank for payment.

4. Any moneys advanced to a recipient which are subject to the control or regulation of the United States or any of its officers, agents or employees' (public moneys as defined in Treasury Circular No. 176, as amended) must be deposited in a bank with Federal Deposit Insurance Corporation (FDIC) insurance coverage and the balance exceeding the FDIC coverage must be collaterally secured.

5. Consistent with the national goal of expanding the opportunities for minority business enterprises, recipients and subrecipients shall be encouraged to use minority banks (a bank which is owned at least 50 percent by minority group members).

ATTACHMENT B.—CIRCULAR NO. A-110

BONDING AND INSURANCE

1. This attachment sets forth bonding and insurance requirements for grants and other agreements with recipients. No other bonding and insurance requirements shall be imposed other than those normally required by the recipient.

2. Except as otherwise required by law, a grant or other agreement that requires the contracting (or subcontracting) for construction or facility improvements shall provide for the recipient to follow its own re-

quirements relating to bid guarantees, performance bonds, and payment bonds unless the construction contract or subcontract exceeds $100,000. For those contracts or subcontracts exceeding $100,000, the Federal agency may accept the bonding policy and requirements of the grantee provided the Federal agency has made a determination that the Government's interest is adequately protected. If such a determination has not been made, the minimum requirements shall be as follows:

a. *A bid guarantee from each bidder equivalent to five percent of the bid price.*—The "bid guarantee" shall consist of a firm commitment such as a bid bond, certified check, or other negotiable instrument accompanying a bid as assurance that the bidder will, upon acceptance of his bid, execute such contractual documents as may be required within the time specified.

b. *A performance bond on the part of the contractor for 100 percent of the contract price.*—A "performance bond" is one executed in connection with a contract to secure fulfillment of all the contractor's obligations under such contract.

c. *A payment bond on the part of the contractor for 100 percent of the contract price.*—A "payment bond" is one executed in connection with a contract to assure payment as required by law of all persons supplying labor and material in the execution of the work provided for in the contract.

3. Where the Federal Government guarantees or insures the repayment of money borrowed by the recipient, the Federal agency, at its discretion, may require adequate bonding and insurance if the bonding and insurance requirements of the recipient are not deemed adequate to protect the interest of the Federal Government.

4. The Federal sponsoring agency may require adequate fidelity bond coverage where the recipient has no coverage and the bond is needed to protect the Government's interest.

5. Where bonds are required in the situations described above, the bonds shall be obtained from companies holding certificates of authority as acceptable sureties (31 CFR 223).

ATTACHMENT C.—CIRCULAR No. A-110

RETENTION AND CUSTODIAL REQUIREMENTS FOR RECORDS

1. This attachment sets forth record retention requirements for grants and other agreements with recipients. Federal sponsoring agencies shall not impose any record retention requirements upon recipients other than those described below.

2. Except for paragraph 1, this attachment also applies to subrecipients as referred to in paragraph 5 of the basic circular.

3. Financial records, supporting documents, statistical records, and all other records pertinent to an agreement shall be retained for a period of three years, with the following qualifications:

a. If any litigation, claim or audit is started before the expiration of the 3-year period, the records shall be retained until all litigations, claims, or audit findings involving the records have been resolved.

b. Records for nonexpendable property acquired with Federal funds shall be retained for 3 years after its final disposition.

c. When records are transferred to or maintained by the Federal sponsoring agency, the 3-year retention requirement is not applicable to the recipient.

4. The retention period starts from the date of the submission of the final expenditure report or, for grants and other agreements that are renewed annually, from the date of the submission of the annual financial status report.

5. Recipient organizations should be authorized by the Federal sponsoring agency, if they so desire, to substitute microfilm copies in lieu of original records.

6. The Federal sponsoring agency shall request transfer of certain records to its custody from recipient organizations when it determines that the records possess long-term retention value. However, in order to avoid duplicate record-keeping, a Federal sponsoring agency may make arrangements with recipient organizations to retain any records that are continuously needed for joint use.

7. The head of the Federal sponsoring agency and the Comptroller General of the United States, or any of their duly authorized representatives, shall have access to any pertinent books, documents, papers, and records of the recipient organization and their subrecipients to make audits, examinations, excerpts and transcripts.

8. Unless otherwise required by law, no Federal sponsoring agency shall place restrictions on recipient organizations that will limit public access to the records of recipient organizations that are pertinent to a grant or agreement except when the agency can demonstrate that such records must be kept confidential and would have been excepted from disclosure pursuant to the Freedom of Information Act (5 U.S.C. 552) if the records had belonged to the Federal sponsoring agency.

ATTACHMENT D.—CIRCULAR No. A-110

PROGRAM INCOME

1. Federal sponsoring agencies shall apply the standards set forth in this attachment in requiring recipient organizations to account for program income related to projects financed in whole or in part with Federal funds. Program income represents gross income earned by the recipient from the federally supported activities. Such earnings exclude interest earned on advances and may include, but will not be limited to, income from service fees, sale of commodities, usage or rental fees, and royalties on patents and copyrights.

2. Interest earned on advances of Federal funds shall be remitted to the Federal agency except for interest earned on advances to States or instrumentalities of a State as provided by the Intergovernmental Cooperation Act of 1968 (Public Law 90-577).

3. Proceeds from the sale of real and personal property either provided by the Federal Government or purchased in whole or in part with Federal funds, shall be handled in accordance with Attachment N to this circular pertaining to property management.

4. Unless the agreement provides otherwise, recipients shall have no obligation to the Federal Government with respect to royalties received as a result of copyrights or patents produced under the grant or other agreement (see paragraph 8, Attachment N).

5. All other program income earned during the project period shall be retained by the recipient and, in accordance with the grant or other agreement, shall be:

a. Added to funds committed to the project by the Federal sponsoring agency and recipient organization and be used to further eligible program objectives;

b. Used to finance the non-Federal share of the project when approved by the Federal sponsoring agency; or

c. Deducted from the total project costs in determining the net costs on which the Federal share of costs will be based.

ATTACHMENT E.—CIRCULAR No. A-110

COST SHARING AND MATCHING

1. This attachment sets forth criteria and procedures for the allowability of cash and in-kind contributions made by recipients or subrecipients (as referred to in paragraph 5 of the basic circular), or third parties in satisfying cost sharing and matching requirements of Federal sponsoring agencies. This attachment also establishes criteria for the evaluation of in-kind contributions made by third parties, and supplements the guidance set forth in Federal Management Circular 73-3 with respect to cost sharing on federally-sponsored research.

2. The following definitions apply for the purpose of this attachment:

a. *Project costs.*—Project costs are all allowable costs (as set forth in the applicable Federal cost principles) incurred by a recipient and the value of the in-kind contributions made by the recipient or third parties in accomplishing the objectives of the grant or other agreement during the project or program period.

b. *Cost sharing and matching.*—In general, cost sharing and matching represent that portion of project or program costs not borne by the Federal Government.

c. *Cash contributions.*—Cash contributions represent the recipient's cash outlay, including the outlay of money contributed to the recipient by non-Federal third parties.

d. *In-kind contributions.*—In-kind contributions represent the value of noncash contributions provided by the recipient and non-Federal third parties. Only when authorized by Federal legislation, may property purchased with Federal funds be considered as the recipient's in-kind contributions. In-kind contributions may be in the form of charges for real property and non-expendable personal property, and the value of goods and services directly benefiting and specifically identifiable to the project or program.

3. General guidelines for computing cost sharing or matching are as follows:

a. Cost sharing or matching may consist of:

(1) Charges incurred by the recipient as project costs. (Not all charges require cash outlays by the recipient during the project period; examples are depreciation and use charges for buildings and equipment.)

(2) Project costs financed with cash contributed or donated to the recipient by other non-Federal public agencies and institutions, and private organizations and individuals, and

(3) Project costs represented by services and real and personal property, or use thereof, donated by other non-Federal public agencies and institutions, and private organizations and individuals.

b. All contributions, both cash and in-kind, shall be accepted as part of the recipient's cost sharing and matching when such contributions meet all of the following criteria:

(1) Are verifiable from the recipient's records;

(2) Are not included as contributions for any other federally-assisted program;

(3) Are necessary and reasonable for proper and efficient accomplishment of project objectives;

(4) Are types of charges that would be allowable under the applicable cost principles;

(5) Are not paid by the Federal Government under another assistance agreement (unless the agreement is authorized by Federal law to be used for cost sharing or matching);

(6) Are provided for in the approved budget when required by the Federal agency; and

(7) Conform to other provisions of this attachment.

4. Values for recipient in-kind contributions will be established in accordance with the applicable cost principles.

5. Specific procedures for the recipients in establishing the value of in-kind contribu-

tions from non-Federal third parties are set forth below:

a. *Valuation of volunteer services.*—Volunteer services may be furnished by professional and technical personnel, consultants, and other skilled and unskilled labor. Volunteer services may be counted as cost sharing or matching if the service is an integral and necessary part of an approved program.

(1) *Rates for volunteer services.*—Rates for volunteers should be consistent with those paid for similar work in the recipient's organization. In those instances in which the required skills are not found in the recipient organization, rates should be consistent with those paid for similar work in the labor market in which the recipient competes for the kind of services involved.

(2) *Volunteers employed by other organizations.*—When an employer other than the recipient furnishes the services of an employee, these services shall be valued at the employee's regular rate of pay (exclusive of fringe benefits and overhead costs) provided these services are in the same skill for which the employee is normally paid.

b. *Valuation of donated, expendable personal property.*—Donated, expendable personal property includes such items as expendable equipment, office supplies, laboratory supplies or workshop and classroom supplies. Value assessed to expendable personal property included in the cost or matching share should be reasonable and should not exceed the market value of the property at the time of the donation.

c. *Valuation of donated, nonexpendable personal property, buildings, and land or use thereof.*

(1) The method used for charging cost sharing or matching for donated nonexpendable personal property, buildings and land may differ according to the purpose of the grant or other agreement as follows:

(a) If the purpose of the grant or other agreement is to assist the recipient in the acquisition of equipment, buildings or land, the total value of the donated property may be claimed as cost sharing or matching.

(b) If the purpose of the agreement is to support activities that require the use of equipment, buildings or land, depreciation or use charges for equipment and buildings may be made. The full value of equipment or other capital assets and fair rental charges for land may be allowed provided that the Federal agency has approved the charges.

(2) The value of donated property will be determined in accordance with the usual accounting policies of the recipient with the following qualifications:

(a) *Land and buildings.*—The value of donated land and buildings may not exceed its fair market value, at the time of donation to the recipient as established by an independent appraiser (e.g., certified real property appraiser or GSA representatives) and certified by a responsible official of the recipient.

(b) *Nonexpendable personal property.*—The value of donated nonexpendable personal property shall not exceed the fair market value of equipment and property of the same age and condition at the time of donation.

(c) *Use of space.*—The value of donated space shall not exceed the fair rental value of comparable space as established by an independent appraisal of comparable space and facilities in a privately-owned building in the same locality.

(d) *Loaned equipment.*—The value of loaned equipment shall not exceed its fair rental value.

6. The following requirements pertain to the recipient's supporting records for in-kind contributions from non-Federal third parties.

a. Volunteer services must be documented and, to the extent feasible, supported by the same methods used by the recipient for its employees.

b. The basis for determining the valuation for personal services, material, equipment, buildings and land must be documented.

ATTACHMENT F.—CIRCULAR NO. A-110

STANDARDS FOR FINANCIAL MANAGEMENT SYSTEMS

1. This attachment prescribes standards for financial management systems of recipients. Federal sponsoring agencies shall not impose additional standards on recipients unless specifically provided for in the applicable statutes (e.g., the Joint Funding Simplification Act, P.L. 93-510) or other attachments to this circular. However, Federal sponsoring agencies are encouraged to make suggestions and assist recipients in estbalishing or improving financial management systems when such assistance is needed or requested.

2. Recipients' financial management systems shall provide for:

a. Accurate, current and complete disclosure of the financial results of each federally sponsored project or program in accordance with the reporting requirements set forth in Attachment G to this circular. When a Federal sponsoring agency requires reporting on an accrual basis, the recipient shall not be required to establish an accrual accounting system but shall develop such accrual data for its reports on the basis of an analysis of the documentation on hand.

b. Records that identify adequately the source and application of funds for federally sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, and income.

c. Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and shall assure that they are used solely for authorized purposes.

d. Comparison of actual outlays with budget amounts for each grant or other agreement. Whenever appropriate or required by the Federal sponsoring agency, financial information should be related to performance and unit cost data.

e. Procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement by the recipient, whenever funds are advanced by the Federal Government. When advances are made by a letter-of-credit method, the recipient shall make drawdowns as close as possible to the time of making disbursements.

f. Procedures for determining the reasonableness, allowability and allocability of costs in accordance with the provisions of the applicable Federal cost principles and the terms of the grant or other agreement.

g. Accounting records that are supported by source documentation.

h. Examinations in the form of audits or internal audits. Such audits shall be made by qualified individuals who are sufficiently independent of those who authorize the expenditure of Federal funds, to produce unbiased opinions, conclusions or judgments. They shall meet the independence criteria along the lines of Chapter 3, Part 3 of the U.S. General Accounting Office publication, Standards for Audit of Governmental Organizations, Programs, Activities and Functions. These examinations are intended to ascertain the effectiveness of the financial management systems and internal procedures that have been established to meet the terms and conditions of the agreements. It is not intended that each agreement awarded to the recipient be examined. Generally, examinations should be conducted on an organization-wide basis to test the fiscal integrity of financial transactions, as well as compliance with the terms and conditions of the Federal grants and other agreements. Such tests would include an appropriate sampling of Federal agreements. Examinations will be conducted with reasonable frequency, on a continuing basis or at scheduled intervals, usually annually, but not less frequently than every two years. The frequency of these examinations shall depend upon the nature, size and the complexity of the activity. These examinations do not relieve Federal agencies of their audit responsibilities, but may affect the frequency and scope of such audits.

i. A systematic method to assure timely and appropriate resolution of audit findings and recommendations.

3. Primary recipients shall require subrecipients (as defined in paragraph 5 of the basic circular) to adopt the standards in paragraph 2, above except for the requirement in subparagraph 2e, regarding the use of the letter-of-credit method and that part of subparagraph 2a, regarding reporting forms and frequencies prescribed in Attachment G to this circular.

ATTACHMENT G.—CIRCULAR NO. A-110

FINANCIAL REPORTING REQUIREMENTS

1. This attachment prescribes uniform reporting procedures for recipients to: summarize expenditures made and Federal funds unexpended for each award, report the status of Federal cash advanced, request advances and reimbursement when the letter-of-credit method is not used; and promulgates standard forms incident thereto.

2. The following definitions apply for purposes of this attachment:

a. *Accrued expenditures.*—Accrued expenditures are the charges incurred by the recipient during a given period requiring the provision of funds for: (1) goods and other tangible property received; (2) services performed by employees, contractors, subrecipients, and other payees, and (3) other amounts becoming owed under programs for which no current services or performance is required.

b. *Accrued income.*—Accrued income is the sum of (1) earnings during a given period from (i) services performed by the recipient; and (ii) goods and other tangible property delivered to purchasers; and (2) amounts becoming owed to the recipient for which no current services or performance is required by the recipient.

c. *Federal funds authorized.*—Federal funds authorized are the total amount of Federal funds obligated by the Federal Government for use by the recipient. This amount may include any authorized carryover of unobligated funds from prior fiscal years when permitted by law or agency regulation.

d. *In-kind contributions.*—In-kind contributions are defined in Attachment E to this circular.

e. *Obligations.*—Obligations are the amounts of orders placed, contracts and grants awarded, services received, and similar transactions during a given period that will require payment by the recipient during the same or a future period.

f. *Outlays.*—Outlays or expenditures represent charges made to the project or program. They may be reported on a cash or accrual basis. For reports prepared on a cash basis, outlays are the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect expense charged, the value of in-kind contributions applied, and the amount of cash advances and payments made to subrecipients. For reports prepared on an accrual basis, outlays are the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect expense incurred, the value of in-

kind contributions applied, and the net increase (or decrease) in the amounts owed by the recipient for goods and other property received, for services performed by employees, contractors, subrecipients and other payees and other amounts becoming owed under programs for which no current services or performance are required.

g. *Program income.*—Program income is defined in Attachment D of this circular. It may be reported on a cash or accrual basis, whichever is used for reporting outlays.

h. *Unobligated balance.*—The unobligated balance is the portion of the funds authorized by the Federal sponsoring agency that has not been obligated by the recipient and is determined by deducting the cumulative obligations from the cumulative funds authorized.

i. *Unliquidated obligations.*—For reports prepared on a cash basis, unliquidated obligations represent the amount of obligations incurred by the recipient that has not been paid. For reports prepared on an accrued expenditure basis, they represent the amount of obligations incurred by the recipient for which an outlay has not been recorded.

3. Only the following forms will be authorized for obtaining financial information from recipients.

a. *Financial Status Report (Exhibit 1).*

(1) Each Federal sponsoring agency shall require recipients to use the standardized Financial Status Report to report the status of funds for all nonconstruction projects or programs. The Federal sponsoring agencies may, however, have the option of not requiring the Financial Status Report when the Request for Advance or Reimbursement (paragraph 4a) or Report of Federal Cash Transactions (paragraph 3b) is determined to provide adequate information to meet their needs, except that a final Financial Status Report shall be required at the completion of the project when the Request for Advance or Reimbursement form is used only for advances.

(2) The Federal sponsoring agency shall prescribe whether the report shall be on a cash or accrual basis. If the Federal sponsoring agency requires accrual information and the recipient's accounting records are not normally kept on the accrual basis, the recipient shall not be required to convert its accounting system, but shall develop such accrual information through best estimates based on an analysis of the documentation on hand.

(3) The Federal sponsoring agency shall determine the frequency of the Financial Status Report for each project or program considering the size and complexity of the particular project or program. However, the report shall not be required more frequently than quarterly or less frequently than annually except as provided in subparagraph 3a(1) above. A final report shall be required at the completion of the agreement.

(4) Federal sponsoring agencies shall require recipients to submit the Financial Status Report (original and no more than two copies) no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports, and 90 days for annual and final reports. Extensions to reporting due dates may be granted upon request of the recipient.

b. *Report of Federal Cash Transactions (Exhibit 2).*

(1) When funds are advanced to recipients through letters of credit or with Treasury checks, the Federal sponsoring agencies shall require each recipient to submit a Report of Federal Cash Transactions. The Federal sponsoring agency shall use this report to monitor cash advanced to recipients and to obtain disbursement information for each agreement from the recipients.

(2) Federal sponsoring agencies may require forecasts of Federal cash requirements in the "Remarks" section of the report.

(3) When practical and deemed necessary, the Federal sponsoring agencies may require receipts to report in the "Remarks" section the amount of cash advances in excess of three days' requirements in the hands of subrecipients and to provide short narrative explanations of actions taken by the recipients to reduce the excess balances.

(4) Recipients shall be required to submit not more than the original and two copies of the Report of Federal Cash Transactions 15 working days following the end of each quarter. The Federal sponsoring agencies may require a monthly report from those recipients receiving advances totaling $1 million or more per year.

(5) Federal sponsoring agencies may waive the requirement for submission of the Report of Federal Cash Transactions when monthly advances do not exceed $10,000 per recipient, provided that such advances are monitored through other forms contained in this attachment, or if, in the Federal sponsoring agency's opinion, the recipient's accounting controls are adequate to minimize excessive Federal advances.

4. Except as noted below, only the following forms will be authorized for the recipients in requesting advances and reimbursements.

a. *Request for Advance or Reimbursement (Exhibit 3).*

(1) Each Federal sponsoring agency shall adopt the Request for Advance or Reimbursement as a standardized form for all nonconstruction programs when letters-of-credit or predetermined advance methods are not used. Federal sponsoring agencies, however, have the option of using this form for construction programs in lieu of the Outlay Report and Request for Reimbursement for Construction Programs (subparagraph 4b).

(2) Recipients shall be authorized to submit requests for advances and reimbursements at least monthly when letters-of-credit are not used. Federal sponsoring agencies shall not require the submission of more than the original and two copies of the Request for Advance or Reimbursement.

b. *Outlay report and request for reimbursement for construction programs (Exhibit 4).*

(1) Each Federal sponsoring agency shall adopt the Outlay Report and Request for Reimbursement for Construction Programs as the standardized format to be used for requesting reimbursement for construction programs. The Federal sponsoring agencies may, however, have the option of substituting the Request for Advance or Reimbursement Form (subparagraph 4a) when the Federal agencies determine that it provides adequate information to meet their needs.

(2) Recipients shall be authorized to submit requests for reimbursement at least monthly when letters-of-credit are not used. Federal sponsoring agencies shall not require more than the original and two copies of the Outlay Report and Request for Reimbursement for Construction Programs.

5. When the Federal sponsoring agencies need additional information in using these forms or more frequent reports, the following shall be observed:

a. When additional information is needed to comply with legislative requirements, Federal sponsoring agencies shall issue instructions to require recipients to submit such information under the "Remarks" section of the reports.

b. When necessary to meet specific program needs Federal sponsoring agencies shall submit the proposed reporting requirements to the Financial Management Branch, Budget Review Division, Office of Management and Budget for approval prior to submission of the reports for clearance under the provisions of OMB Circular No. A-40.

c. When a Federal sponsoring agency has determined that a recipient's accounting system does not meet the Standards for Financial Management contained in Attachment F to this circular, additional pertinent information to further monitor grants and other agreements may be obtained upon written notice to the recipient until such time as the system is brought up to standard.

d. The Federal sponsoring agency, in obtaining information as in paragraphs a, b and c above, must comply with report clearance requirements of the Office of Management and Budget Circular No. A-40, as revised.

6. Federal sponsoring agencies have the option of shading out any line item on any report that is unnecessary for decision-making purposes.

7. Federal sponsoring agencies should accept the identical information from the recipients in machine usable format or computer printouts in lieu of prescribed formats.

8. Federal sponsoring agencies may provide computer outputs to recipients when it will expedite or contribute to the accuracy of reporting.

9. Federal sponsoring agencies are authorized to reproduce these forms. The forms for reproduction purposes can be obtained from the Office of Management and Budget.

CHAPTER 5

PROJECT AUTHORIZATION
(RESERVED)

CHAPTER 5

PROJECT AUTHORIZATION

5A. Introduction

1. The project authorization is an internal Agency document which gives substantive approval for a project to move from the planning stage to the stage at which a project agreement is ready to be signed and implementation initiated. It does not reserve or commit funds. The authorization approves the project design, sets out the basic scope of the project and its duration, defines certain fundamental terms and conditions of the assistance and approves the total AID budget level for the project. Signature and implementation of the project agreement are subject to the availability of funds. Funds are made available for project obligations through the allotment process. Allotments are made in accordance with the Operational Year Budget (OYB) and revisions thereto.

2. The project authorization is required for all new projects financed by AID, regardless of type of project and method of financing.

a. See the Preface of this Handbook for definition of a project. For instance, capital or technical assistance projects, loan or grant projects, research projects, institutional grants, Housing Investment Guaranties, grants to intermediaries (such as voluntary agencies) to conduct projects, are all covered by this guidance.

b. The project authorization is not applicable to nonproject activities such as program assistance, program development and support, nor to obligations from relief and contingency funds.

c. Projects initially authorized or approved under procedures other than set forth in this chapter may be amended by using the authorization or approval amendment procedures applicable at the time of original approval or authoriziation of the project.

3. Thus, project authorization is the formal step by which an official having delegated authority to do so:

a. Approves a specific project and its budget described in a Project Paper (PP);

b. Specifies the terms and sets forth the substance of the major covenants and/or conditions for the project agreement;

c. Sets forth the planned Life of the Project; and

d. Authorizes negotiation and, after funds have been made available for obligation through the OYB and allotment processes, signature of the project agreement or other obligating document by an official to whom such authority has been delegated.

4. Within relevant constraints, once the project is authorized, the AID official authorized to negotiate and execute the project agreement can determine when, over the life of the authorized project, funds are obligated for the project.

a. Relevant constraints include: the period of years established in the authorization within which obligation is to take place; the availability of funds in accordance with the OYB and allotment processes; and compliance with Congressional Notification and other statutory and policy requirements. Note that the initial obligation must occur within a specified time period after authorization. Each Bureau has established procedures for terminal dates for signing project agreements which, in effect, control the timing of initial obligation.

b. AID regulations and delegations of authority determine who is the responsible AID official to decide such questions as when, within such constraints, obligations are to be made. Normally, funds for a project are obligated when the project agreement is signed, additional funds are obligated by amendment to the agreement.

c. Thus, within the limits of the project authorization and of other applicable constraints, the official who is authorized to negotiate and execute the project agreement, or who is authorized to amend it, may obligate the indicated funds.

d. To illustrate, consider a project the authorization of which is reserved to A/AID. Once authorized, the negotiation, execution and implementation of the project agreement is delegated to, e.g., a Regional Assistant Administrator (AA) by Delegation No. 5, if loan-funded; and by Delegation No. 38, if grant-funded. Similarly, negotiation, execution and implementation of <u>amendments</u> to the <u>agreement</u>, subject to limitations described in 5E, 2.b., are delegated to the AA. Thus the AA can control the timing both of the initial and subsequent obligations within authorization and other constraints.

e. AAs have normally delegated to Principal Officers of field posts the authority to negotiate, execute and implement project agreements; this is often done on a blanket basis rather than aproject-by-project basis. Hence, authority to determine the timing

of project obligations, e.g., within 120 days following authorization will often be found to reside with the principal field officer. Such field control over the timing of obligations -- i.e., of when projects which have been authorized are moved forward to the agreement and implementation stages, and when increments are added are, of course, subject to the constraints discussed, including OYB and allotment rules, Congressional Notification requirements, timing requirements expressed in the authorization, as well as other requirements such as directives from the Regional Bureaus.

5B. Context of the Project Authorization

The project authorization is the principal component in an action package presented to the authorizing official. The authorization package, which summarizes the proposal and recommends signature, consists of: (i) action memorandum, (ii) authorization, (iii) project data sheet, (iv) the body of the project paper, and (v) as appropriate, waiver requests and justifications. (See Handbook 13 for slightly modified requirements for certain types of grants.)

1. Action Memorandum.

A format for the Action Memorandum is attached at Appendix 5C. This format should be used for all projects; it essentially summarizes the substance of what is proposed for signature. The discussion of issues should include, as appropriate, for example: any project issues which should be brought to the attention of the authorizing official at the time of signature; comments on relevant GAO or IG audits; evaluations; Congressional inquiries relating thereto; and any other salient programming, design or implementation questions. Waivers known to be required for the implementation of the project should be mentioned in the memorandum and, if the authorizing official must approve same, they should be included in the package.

2. Authorization.

The authorization, with the Project Data Sheet, constitutes the first part of the PP. (See Appendix 5D for sample format and instructions). The executed authorization, or a copy, is maintained as part of the PP. The PP will not be regarded as complete unless it contains as its initial section a copy of the executed authorization. (Parallel treatment should be accorded a copy of the action memorandum, even though it is not a part of the PP.)

3. Project Data Sheet.

The Project Data Sheet (see Appendix 3A for form and instructions) contains operational and recording information. It also has a space

(Block 14: originating office clearance) for the signature of the officer initiating the request for authorization. This is usually the same officer who forwards the action memorandum.

4. Project Paper.

The PP is discussed in HB 3, Chapters 3 and 4.

5. Waiver Request and Justification

If the project design is such that AID rules or procedures need to be waived and relevant waivers have not been previously requested and approved, then such waiver request(s) and justification(s) should be prepared and included in the authorization package. If desired, the approval of the waiver request may be built into the authorization text. Waivers that must be approved by officials other than the authorizing officer should,if practicable, be approved by such other officials before the authorization package is submitted.

5C. Content of the Project Authorization

1. General.

The authorization must be fully consistent with the PP. The authorization identifies the project; the provision of law under which the assistance is to be furnished; the total planned obligation in loan and/or grant funds; and the period, in fiscal years, from the date of authorization, over which obligations are planned; and the planned life of the project.

2. Fiscal; Future Funds; Increments

a. The authorization, which gives permission to negotiate and execute the Project Agreement and to implement the project, is expressly made subject to the availability of funds in accordance with the AID OYB/allotment process. This "subject to" reservation affects all funds planned for the project, whether it is to be fully funded at the outset or is to be funded incrementally. If the agreement initially does not fully fund the project, so that a subsequent increment or increments of funds must be added by AID to complete the authorized life-of-project funding planned, this "subject to" must be expressed also in the project agreement.

b. An incrementally funded agreement must provide, with respect to future increments, that subsequent increments are (1) subject to the availability of funds to AID for the purpose, and (2) subject to the mutual approval of the parties to the agreement, at the time of a subsequent increment, to proceed. This prevents

violation of (i) the Antideficiency Act and (ii) the rule against commitment of current or future year funds not positively known to be available for the project. This applies to both loans and grants. For discussion, see Handbook 2, Part I, Chapter I, 5, and model Project Grant Agreement, Section 2.2, Appendix 6A-2, and guidance notes in Appendix 6B of Handbook 3.

c. Since the authorization by itself does not provide funds (funds are provided through the OYB/allotment process), it is not necessary for fiscal reasons in a new fiscal year to reauthorize a prior-year authorization, regardless of whether the funds contemplated to be used were fiscal-year or no-year money.

d. The official authorizing the project may approve local currency financing by A.I.D. as required by the project or place a limitation thereon. Notwithstanding, the conversion of U.S. dollars into local currency may not exceed the equivalent of A.I.D. dollar financing for the project.

3. Delayed Obligations, Including Increments

a. There may be substantive requirements, other than fiscal concerns which must be taken into consideration prior to obligation of funds for a project if time has elapsed since its authorization. This applies to subsequent increments of a project, as well as to a fully funded project where obligation is delayed. For instance (and certainly if a new fiscal year has commenced since authorization) a check may need to be made that a current Congressional Notification is in effect. Other issues which may need to be checked include legislative changes subsequent to authorization of the project, and whether the recipient country has taken any acts which under U.S. law may preclude obligation of assistance for it.

b. The official who, pursuant to a previous authorization executed an obligating agreement or amendment, has the duty to use reasonable diligence to assure that during the time elapsed since the project was authorized no bar to obligation has intervened. Any mandatory requirements on the furnishing of such assistance, including requirements that were judged to have been met as of the time of authorization, must still be met as of the time of obligation.

* 4. Life of Project Period

The authorization identifies the estimated life-of-project period. This is the period during which A.I.D.-financed goods and services are being provided to the project. This period runs from the date of *

* Revised

* signature of the Project Agreement or other obligating document to the Project Assistance Completion Date (PACD). (See Chapter 6, paragraph 6D.5.h.). If it happens that the planned life-of-project period must be extended, formal amendment of the authorization would not be necessary for this reason alone, since the period referred to is a "planned" one. Extension of the PACD is subject to authorities contained in Delegations of Authority. (See section 5E and 5G for details.) *

5. Project Description

a. The authorization's description of the project must be consistent with information in the body of the PP. The description must be brief and clear so that it can form the basis of the project agreement to be negotiated with the borrower or grantee. It must also be sufficiently specific to indicate the limits of the approval and the constraints on project implementation.

(See 5F, "Amendments" for guidance on the extent to which the project in implementation may vary from the project description embodied in the PP and authorization without formally amending the authorization.)

6. Conditions and Covenants

a. Project authorizations should contain only essential conditions and covenants. Such conditions and covenants would normally be very few in number and would be the ones which the authorizing office does not want modified without its prior approval. These essential conditions and covenants will appear either verbatim or with the same substantive content in the Project Agreement (PROAG). Other conditions and covenants appearing in the project paper, but which are not deemed significant enough to include in the authorization may, of course, be included in the PROAG as determined necessary by the officer negotiating and executing the agreement on behalf of A.I.D. The phrase "such other terms and conditions as A.I.D. may deem appropriate" contained in the authorization permits inclusion of such additional conditions and covenants.

b. Even though a Mission or other office may have generally delegated authority to amend authorizations, amendments to or waivers of conditions and covenants appearing in an authorization signed by an AA or the A/A.I.D. must have the approval of the AA or the A/A.I.D. prior to signature of the authorization amendment. (For specific amendment authorities, consult individual mission or office redelegations.) Amendments to or waivers of conditions and covenants in authorizations originally signed in the Mission may be made by the USAID Director without consultation with A.I.D./W provided that such a change does not pose significant policy issues and is generally consistent with

* Revised

guidance, e.g., as to project scope, which may have been given at the time of PID approval. Otherwise, the concurrence of the AA will be expected.

c. Modification of conditions and covenants contained in the authorization must have the concurrence of the RLA serving the Missions or the appropriate A.I.D./W GC office.

d. The authorization will also identify the approved source and origin of goods and the nationality of services to be financed. However, to allow for possible unforeseen circumstances, the authorization reserves authority for A.I.D. to agree to finance commodities or services from an otherwise ineligible source, origin or nationality. Notwithstanding, waivers known to be essential to the project's implementation at time of authorization should be presented for approval as part of the authorization package or in parallel to the appropriate approving official.

5D. Procedures

1. General

a. The draft authorization is prepared by the sponsoring office or post along with the Project Data Sheet and the body of the PP. (The action memorandum may be drafted at the same time also.) Appropriate consultation with and/or clearance by legal and technical staff is required; (this requirement may be made more specific by responsible bureau or post officials.) The final version of the authorization is generally prepared by the post or Regional Legal Advisor or GC officers in A.I.D./W.

b. After clearances are obtained, the authorization and its associated documents are forwarded for signature to the official who is delegated power to authorize the project (See 5E).

c. Authorization must precede obligation, and obligation requires an allotment, but it is not necessary to have the allotment prior to authorization, since authorization does not depend on funds availability. However, in processing the authorization it is important from a programming standpoint, for obligation scheduling purposes, to be aware whether the project has been included in the OYB or is to be funded in part or in whole in a subsequent year. If the project has not been included in the OYB, the responsible A.I.D./W officer will send any necessary request for the allotment of current year funds to the Funds Control Division (FM/FCD). If funds have already been allotted for the project based on the OYB, no request for allotment, or for an adjustment in allotment, is required unless the amount to be obligated is more or

less than the amount previously allotted. A copy of the whole action package -- action memorandum, authorization, project data sheet and body of the PP -- is furnished to the official who has been authorized to negotiate the agreement.

A copy of the signed action package is also furnished to the Controller (FM) and to the Office of Development Information and Utilization (S&T/DIU).

d. It is important for programming purposes for each Bureau and for the Agency to have a running tally or record of:

(1) approved authorizations calling for (a) obligations in the current fiscal year or (b) obligations in future fiscal years, and

(2) obligations entered into pursuant to (1)(a) above, and pursuant to prior year authorizations.

PPC, FM, and the Bureaus are responsible for being able to provide the above information.

e. Even though authorization does not itself have fiscal consequences, timely follow-up of an authorization, through allotment and obligation steps, is important. The programming consequences of delay may be significant, especially if the delay extends into the next fiscal year. Although the authorization remains valid until it lapses either by its own terms or by de-authorization action, neither OYB approval nor allotments carry forward automatically from one fiscal year into the next. Thus, in the case of funds which are appropriated to be available only for one fiscal year, failure to act upon an authorization by obligating such funds will mean that the authorization must compete for funds, in the new fiscal year's OYB, with all other projects.

f. If the funds were appropriated on a no-year basis, even though the funds remain available until obligated and expended, timely action to obligate should still be taken, since the authorization does not reserve the funds. Until obligation, such funds remain subject to re-allocation in the new fiscal year's OYB/allotment process.

* 5E. Authorizing Officials

1. General

In Delegation of Authority No. 400-1 (formerly Delegation of Authority 133), effective February 10, 1986, certain authority to approve project and non-project assistance is delegated to Assistant *

* Revised

* Administrators (AAs) and Directors or Principal Officers of Missions and posts overseas. Authority to approve or extend AID project or non-project assistance occurs principally at three levels of authority within the Agency. These levels are:

(a) The Administrator (including the Deputy Administrator);

(b) Designated Assistant Administrators (including their Deputies);

(c) Designated Mission Directors or other Principal Officers of field posts and Designated AID/Washington officers.

2. Definitions

(a) "Project" for purposes of this delegation includes project and non-project assistance.

(b) "Project Assistance Completion Date" (PACD) is the estimated date by which all AID-financed goods are to have been delivered or all services performed under the Project Agreement. In non-project assistance, the equivalent date is the terminal date for requests for disbursement authorizations.

(c) "Life-of-Project" is the planned length of the project as determined in project preparation. The life-of-project runs from the estimated date of signature of the Project Agreement or other obligating document to the PACD.

3. Overall Structure

(a) Administrator/AID (A/AID):

Within the limits prescribed by law, the Administrator may approve any project, amend any project authorization, and approve any project extension.

(b) Assistant Administrators (AAs)

The following authorities are delegated to the Senior Assistant Administrator for Science and Technology, the Assistant Administrator for Program and Policy Coordination, the Assistant Administrator for Food and Voluntary Assistance, the Assistant Administrator for Private Enterprise, the Assistant Administrator for Africa, The Assistant Administrator for Asia and the Near East and the Assistant Administrator for Latin America and the Caribbean. *

* Revised

* (1) The Assistant Administrators (listed in paragraph [1] above) are given limited authority to approve and amend projects, to extend the life-of-projects, and to redelegate such authorities within their respective Bureaus if the project does not:

(a) present significant policy issues;

(b) require issuance of waivers that may only be approved by the Administrator or if such waivers are required they are approved by the Administrator prior to such authorization; and

(c) have a life-of-project in excess of ten (10) years

(2) The Assistant Administrators (listed in paragraph [1] above) are given the authority to amend project authorizations executed by any AID official, if the amendment does not:

(a) present significant policy issues;

(b) require issuance of waivers that may only be approved by the Administrator or if such waivers are required they are approved by the Administrator prior to such authorizations.

(3) The Assistant Administrators (listed in paragraph [1] above) are given the authority to approve extensions of the life-of-project provided that the extension does not result in a total life-of-project (from point of initial obligation to revised PACD) of more than ten (10) years.

(4) Authorities delegated under this section may be exercised by persons performing the functions of the Assistant Administrator in an "Acting" capacity but may not be redelegated. In the case of the Bureau for Science and Technology, the Senior Assistant Administrator for Science and Technology may redelegate the authorities delegated in paragraphs 5E3(b)(1) through 5E3(b)(3) to the Agency Directors except the authority to authorize a project when the life-of-project funding exceeds $20 million and the authority to amend a project authorization when the amendment will result in a total life of project funding of more than $30 million may be redelegated only on a project-by-project basis. Assistant Administrators may also redelegate the authorities under paragraphs 5E3(b)(1) through 5E3(b)(3) to Deputy Assistant Administrators.

(c) Mission Directors or Principal Officers of Field Posts:

The following authorities are redelegated to Mission Directors or Principal Officer of Field Posts:

*

* Revised

* (1) Regional Assistant Administrators may, each within their area of responsibility, redelegate the authorities delegated to them in paragraphs 5E3(b)(1) through 5E3(b)(3), at their discretion and in accordance with criteria established by the Bureau to Mission Directors or other principal officers of field posts.

(2) The Senior Assistant Administrator for Science and Technology, and Assistant Administrators for Program and Policy Coordination, Food and Voluntary Assistance and Private Enterprise may redelegate authorities delegated to them under paragraphs 5E3(b)(1) through 5E3(b)(3) to Mission Directors or other principal officers of field posts for individual projects with the concurrence of the relevant Regional Assistant Administrator.

(3) The authority to authorize a project when the life-of-project funding exceeds $20 million and the authority to amend a project authorization when the amendment will result in a total life-of-project funding of more than $30 million may be redelegated only on a project-by-porject basis based on policy programmatic and staffing considerations.

(4) Authorities redelegated hereunder may be exercised by persons performing the functions of the Mission Director in an "Acting" capacity and may be redelegated by the Missions Director to the principal deputy of the Mission Director, but may not be further redelegated. Authorities redelegated to principal officers of field posts other than Missions may be exercised by persons performing the functions of the principal officer in an "Acting" capacity but may not be redelegated. *

* Revised

(4) Authorities redelegated to Principal Officers of field posts other than Missions may be excercised by persons performing the functions of the Principal Officer in an "Acting" capacity, but may not be redelegated.

5F. Amendments

1. General

Amendment of the Project Authorization (Appendix 5E) is required to approve the following changes in projects:

a. When a significant change in the scope or focus of a project is proposed; or for changes in the interest rate, grace period, or repayment period of a loan.

b. When the approved AID life-of-project or budget total is to be increased.

Note: See Chapter 13, "Project Modifications," for documentation required to support project or authorization changes.

2. Deauthorization; Deobligation

a. Since authorization represents programming approval rather than a fiscal action, de-authorization represents full or partial withdrawal of such approval. Withdrawal of approval may be documented by the execution of an amended authorization (Appendix 5E). Thus, if a project has been authorized for one level of funding, and it is desired prior to full obligation to reduce this level, an amended authorization (in effect, a partial deauthorization) can be executed, based on any necessary adjustments to the PP. However, there will be circumstances in which other procedures than amending the authorization will suffice to document full or partial withdrawal of approval.

b. After obligation, reduction of obligated funds is accomplished by deobligation. Deobligation from a project agreement of funds which are no longer needed will, in most instances, be reflected in an amendment to the project agreement and accomplished by the appropriate Controller administratively in coordination with the project officer and other concerned officers within the USAID, or AID/W Bureau, or both. The authority to reobligate funds obligated in a prior fiscal year depends on the nature of these funds and the existence of certain statutory authorities. GC and FM should be consulted to determine whether funds, if deobligated, may be subsequently reobligated.

5G. Exceptions for AID/W Projects

In the case of certain inter-regional AID/W-managed and centrally funded projects and unilateral projects, such as many undertaken by the Bureaus for Food and Voluntary Assistance, Private Enterprise and the Bureau for Science and Technology, the following exceptions are made to this Chapter's guidance. These exceptions are necessary because of the unique nature of the centrally funded and unilateral projects described.

1. The authorization may be reduced to a brief statement of the AID- financing to be provided per the attached Project Paper and subject to any major conditions deemed necessary by the Bureau responsible for the project.

2. Special allotment procedures for this category of projects are to continue.

5H. Distribution of Authorization Documents

Missions which authorize projects will normally maintain the official files for them, but are to advise AID/W by cable of the authorization of a project and forward copies of the documents to their backstopping Regional Bureau. The Regional Bureau will make distribution to S&T/DIU and to other appropriate offices within AID/W. In the case of projects (such as loans) for which disbursements will be made from Washington, such distribution will include the Office of Financial Management (FM).

In addition, the responsible Bureau or Post promptly sends copies of a signed authorization or authorization amendment to all offices that cleared the document and to such other offices as may be appropriate. Procedures for advising the Borrower/Grantee and for press releases are given in Appendix 5A, Publicity Regarding Authorization of Funding (Reserved).

5I. Congressional Notification

The annual AID appropriations act and Section 634A of the FAA require Congress to be notified 15 days in advance of obligation of funds for a particular project. This notification is normally effected by inclusion of the project in the Congressional Presentation document which is submitted each year to Congress. See Appendix 5B for guidance on when a separate notification for a project is required and the format and procedures therefor.

PUBLICITY REGARDING AUTHORIZATION OF FUNDING

(RESERVED)

APPENDIX 5B

MAR 5 1982

MEMORANDUM

TO: See Distribution

FROM: A-GC, Kelly C. Kammerer KCK
LEG, Michelle Laxalt

SUBJECT: Revised Guidance for Preparation of Congressional Notifications

Section 704 of the International Security and Development Cooperation Act of 1981 (P.L. 97-113) amends Section 634A of the Foreign Assistance Act to require that congressional notifications contain additional information if a proposed reprogramming would cause the level of assistance to a country in a fiscal year to be increased by more than a certain amount. In its entirety, the amendment to Section 634A is as follows:

> Whenever a proposed reprogramming exceeds $1,000,000 and the total amount proposed for obligation for a country under this Act in a fiscal year exceeds by more than $5,000,000 the amount specified for that country in the report required by section 653(a) of this Act, notifications of such proposed reprogrammings shall specify--
>
> (1) the nature and purpose of such proposed obligation, and
>
> (2) to the extent possible at the time of the proposed obligation, the country for which such funds would otherwise have been obligated.

A. <u>When the New Requirement is Applicable</u>

The report required by <u>FAA Section 653(a) is the annual operating year budget</u> (OYB) transmitted to the Congress within 30 days after enactment of a regular foreign assistance appropriation bill.

As required by the amended Section 634A, whenever a proposed reprogramming exceeds $1 million <u>and</u> the <u>total amount of proposed fiscal year obligations for a country</u> exceeds by more than $5 million the amount stated for that country in the Section 653(a) report (Tab A), the notification must contain the information specified in the statute. Thus, once the

$5 million threshold is reached, any reprogramming for a country in excess of $1 million will require the additional information noted in the statute. Moreover, any reprogramming for a country in excess of $1 million which causes the proposed level of that country to be increased in excess of $5 million over the amount contained in the Section 653(a) report will also require such additional information. For example:

(1) Assume that prior reprogrammings had increased the total amount of Development Assistance proposed for obligation for a country in a fiscal year by $4 million over the amount contained in the OYB. A proposed reprogramming of $1.5 million that would cause the total amount of DA proposed for obligation for that country to exceed $5 million, would require the additional information to be included with the notification.

(2) Assume the same situation as in paragraph (1), but that the proposed reprogramming of $1.5 million does not entail an increase in the proposed country level above $5 million. In such case, no additional information would be required.

(3) Assume that there had been no prior reprogrammings for a country. An initial reprogramming that would have the effect of increasing a country's proposed level of obligations in excess of $5 million over the amount contained in the OYB would require the additional information to be included with the notification.

The total amount of fiscal year obligations for a country will be computed separately for Development and Economic Support Fund assistance. Thus, if prior reprogrammings represent a $5 million increase in ESF assistance for a country, a subsequent reprogramming of more than $1 million of ESF assistance to that country would require the additional information specified in the section; reprogrammings of Development Assistance would remain unaffected until the $5 million threshold was reached for Development Assistance.

B. What New Information Will Be Required

If the additional requirement is applicable to a notification, the section as amended requires two pieces of information to be provided:

- the nature and purpose of the proposed obligation; and

- the identity of the country (to the extent known at the time of obligation) for which the reprogrammed funds would otherwise have been obligated.

The first requirement may be satisfied by a one sentence description of the project purpose. Since this information is always provided on activity data sheets prepared for substantive notifications nothing further need be added to a substantive notification in order to comply with this first requirement. Technical Notifications, however, will have to include a statement of project purpose, as noted in the sample technical notification included in Tab B.

The second additional requirement for information may be satisfied in two ways. If, at the time the reprogramming goes forward to the Congress, it is known from which country funds have been reprogrammed, the name of this country will be included on the Advice of Program Sheet. If, at the time the reprogramming goes forward to Congress, the country or countries from which funds are reprogrammed is not known, the Advice of Program Change or Technical Notification will include a statement to this effect. A reprogramming that does not fall within the scope of the amendment to Section 634(a) should not contain any additional information or comment.

It is quite conceivable that the identification of a country from which funds are to be reprogrammed would be politically very sensitive. Therefore bureaus should consider the necessity of classifying a reprogramming which it feels is of a sensitive nature.

LEG and GC will rely on the bureau DP offices to maintain an accounting of increases in country levels and to notify the originating offices of the applicability of these additional requirements.

Revised Advice of Program Change formats are attached at Tab B. These should be used in lieu of the forms contained in the congressional notification guidance dated October 23, 1981.

C. Effective Date of these Changes

The changes required by the amendment, as implemented by this memorandum, will be effective immediately.

Attachments:
Tab A - Section 653(a) Report
Tab B - Revised Advice of Program Change Formats

Distribution:

DA/AID, Mr. J.C. Wheeler
Assistant Administrators and Office Heads
Assistant General Counsels

Attachment A

AGENCY FOR INTERNATIONAL DEVELOPMENT
ADVICE OF PROGRAM CHANGE

Date: (to be inserted by LEG)

Country: (If Centrally funded, the word "Worldwide" may be used.)

Project Title:

Project Number:

Data Base Reference: (insert Data Base reference)

Appropriation Category:

Life-of-Project Funding:

Intended FY 1981 Obligation: (insert total FY obligation proposed and indicate if it is to be grant or loan assistance)

(Loan Repayment Terms: insert if applicable)

This is to advise that A.I.D. intends to obligate funds from the Population Account for the subject project rather than from the Health Account as previously identified in the Data Base.

As a result of a review of the project made after the FY 81 CP was prepared it was determined that the project was more appropriately funded from the Population Account. No change will be made in either fiscal year or life-of-project funding levels.

(Note, this is only a model to assist drafters in preparing Advices of Program Change. The first paragraph should state clearly the nature of the change, the second should identify the reason for the change.)

Attachment

AGENCY FOR INTERNATIONAL DEVELOPMENT
ADVICE OF PROGRAM CHANGE

Date: (to be inserted by LEG)

Country: (If centrally funded, the word "Worldwide" may be used.)

Project Title:

Project Number:

FY 1982 CP Reference: None (or, e.g., Africa volume, PPS on page 301)

Appropriaton Category:

Life-of-Project Funding:

Intended FY 1982 Obligation: (insert total FY obligation proposed and indicate if it is to be grant or loan assistance)

(Loan Repayment Terms: insert if applicable)

This is to advise that AID intends to obligate $_____ for the _____ Project. This is a new project and was not included in the FY 1982 CP.

The project will assist the Government of Kenya to provide extension services to rural areas in Western Kenya by establishing an agricultural college and training facility for administrative staff. (Include further elaboration, in a paragraph, of anticipated end-of-project status.)

(If this reprogramming exceeds $1 million and total reprogrammings have increased the total country level in excess of $5 million, include the source of reprogrammed funds or a statement explaining why such information is not available.)

Attachment C

AGENCY FOR INTERNATIONAL DEVELOPMENT
ADVICE OF PROGRAM CHANGE

Date: (to be inserted by LEG)

Country: (If centrally funded, the word "Worldwide" may be used.)

Project Title:

Project Number:

Data Base Reference: None

Appropriation Category:

Life-of-Project Funding:

Intended FY 1981 Obligation: (insert total FY Obligation proposed and indicate if it is to be grant or loan assistance)

(Loan Repayment Terms: insert if applicable)

This is to advise that A.I.D. intends to obligate $_____ for the _____ Project. This is a new project and was not included in the Data Base.

The preliminary design of this project, which will assist the Government of Kenya to train agricultural extension agents, was not completed until after the FY 81 CP was prepared.

Work on project design as well as negotiations with the Kenyan Government moved more rapidly then anticipated, enabling A.I.D. to ready this project for authorization and initial obligation in the current fiscal year.

TITLE	FUNDS	PROPOSED OBLIGATION (In thousands of dollars)		
Rural Water and Sanitation	Health	FY 88		LIFE OF PROJECT 12,142*
NUMBER / GRANT ☒ LOAN ☐ / NEW ☐ / AMENDMENT ☐	PRIOR REFERENCE: None	INITIAL OBLIGATION FY 80	ESTIMATED FINAL OBLIGATION FY 83 *	ESTIMATED COMPLETION DATE OF PROJECT FY 87*

Purpose: To assist the Government of Lesotho (GOL) in developing the capacity of the Ministry of Rural Development/Village Water Supply Section (MORD/VWSS) to design, construct and maintain new and existing rural water supply systems which adequately address health and sanitary education considerations.

Backgrounds: About 94% of the 1.2 million people of Lesotho reside in areas not served by safe, sanitary water systems. Existing water systems are highly susceptible to contamination. The Ministry of Rural Development has a limited capacity to design and construct new rural water supply systems (about 10 per year) and to maintain existing ones (36% of which are estimated to be completely non-functional or functioning improperly). A backlog of over 300 village requests for water supply systems (often accompanied by local financial contributions) suports the need for improved water supplies. The GOL envisages completion of at least 142 additional water supply systems during the project and improved maintenance and reconstruction of 68 existing systems.

Project Description: The project will, among other things, provide training for Basotho personnel in the VWSS who will be responsible for minor maintenance of village water supply systems; establish regional and district maintenance centers responsible for major repair work of rural water supply systems in their respective service areas; and foster coordination between the Ministries of Health and Rural Development in recognition of the interdependence of health and water supply activities in the successful implementation of this project. It is anticipated that by providing assistance to the GOL in developing this capacity, the VWSS will be more effective in carrying out its responsibilities as they pertain to rural water supply systems. It will have developed the institutional infrastructure necessary to support future rural water supply endeavors.

Relation of Project to A.I.D. Country Strategy: A progressive rural economy is Lesotho's only viable alternative to continued extreme dependency on South Africa. A.I.D. is helping Lesotho to establish, by 1983, the institutional bases in agriculture and education which are necessary conditions for sustained national development over the next 25 years. Basic improvements in rural health services are necessary to induce people to remain in rural areas and to improve the productivity of their labor. A.I.D. health sector programs are focused on the training of paramedical workers and on improving the availability and quality of drinking water. Such activities involve low recurrent costs and yield a rapid return in the reduced incidence of disease. This project will likely be A.I.D.'s final participation in Lesotho's health sector.

Beneficiaries: The project will construct, rebuild and maintain approximately 210 village water supply systems. The system will provide clean water for household use of approximately 170,000 people, or 15% of the rural population. Cost per direct beneficiary is an estimated $71.

Host Country and Other Donors: The GOL is funding additional personnel for the VWSS, funding recurrent costs for drilling operations and transport ($1,400,000 estimated), and providing land for housing and VWSS facilities. The villagers are expected to contribute $50,000 in cash and $440,000 through self-help labor. The United Kingdom, European Economic Community, UNICEF and UNDP will also provide assistance to the village water supply program. The Peace Corps will initially supply one volunteer water engineer.

Major Outputs	All Years
Technical staff and village representatives trained for management and maintenance	570
Village water systems constructed or restored	210
Regional and district supply and maintenance centers constructed and operating	4

A.I.D.-Financed Inputs:	($ thousands) Life of Project
Technical Assistance:	
6 long-term (264 pm) and 2 short-term (36 pm)	2,200
Training:	
1 long-term U.S. (144 pm)	264
3 long-term Lesotho (240 pm)	123
Commodities: Drilling equipment, hand-pumps, etc.	7,600
Other Costs: Construction materials and local labor	1,959
TOTAL	12,146

* The word "continuing" may be inserted for level of effort projects for which life-of-project levels or dates would not be appropriate.

(TM 3:44)

App 5B, Chp 5, Attachment D

Attachment B

AGENCY FOR INTERNATIONAL DEVELOPMENT

TECHNICAL NOTIFICATION

Project Title and Number	Prior Reference 1/	Country or Central Program	Country from which Reprogrammed 2/	Appropriation Account	OYB Amount	Amount Now Required	Amount of Increase	Project Purpose 2/
Peat II 938-0145		Burundi		106	$450,000	$ 550,000	$ 100,000	
Ag Research 914-3800		Centrally		103	$800,000	$1,800,000	$1,000,000	

1/ Please insert the most recent instances in which Congress received an updated Data Sheet for the project (i.e., a prior year CP, the Data Base, or a CN).

2/ Source of funds from which reprogrammed and project purpose are required only if this reprogramming exceeds $1 million and total reprogrammings have increased the total level for the country in excess of $5 million over the amount contained in the Section 653(a) report.

Attachment II

Summary Sheet

Country/Project	Appropriation Account	Prior Reference	Amount	Country from which Reprogrammed	Purpose
Albert Market Feasibility Study - Gambia	103		$ 93,000		To perform a feasibility study to determine whether changes to the Albert Market of a structural or socio-economic nature are warranted. The study will establish parameters and indicators of socio-economic costs, benefits and impact of changes to the traditional market as well as strategies for modernization.
Cooperative Training and Education - Sudan	103		$100,000		To improve local management of 62 multipurpose marketing cooperatives and 36 credit societies which serve about 70,000 small farmers. Farmers will be taught numeracy and basic literacy related specifically to cooperative activities and co-op storage and distribution management.
Technical Skills Training - Kenya	103		$150,000		To train agricultural workers in food crop, livestock and poultry production techniques, farm mechanics and farm management. Graduates will be organized into farmer associations and placed in agricultural jobs while awaiting resettlement on new farm lands.
	TOTAL		$343,000		

1/ Please insert the most recent instance in which Congress received an updated Data Sheet for the basket project (i.e., a prior year CP, the Data Base, or a CN).

2/ Source of funds from which reprogrammed is required only if the reprogramming for a country exceeds $1 million and total reprogrammings have increased the total level for the country in excess of $5 million over the amount contained in the Section 653(a) report.

(Use plain white bond paper)

ACTION MEMORANDUM FORMAT*

For proper spacing, format, refer to AID Handbook 21, Supplement A, "Executive Communications", Page V-17.

ACTION MEMORANDUM FOR THE ADMINISTRATOR*

THRU: ES

THRU: AA/PPC, _____

FROM: AA/ASIA, _____

ACTION:

Your approval is requested for a (grant/loan) of $ (amount) from the (FAA Section number and name) _____ appropriation to Country _____ for (project title and project number) _____

It is planned that a total of ____ will be obligated in FY _____ and/or substance of proposal,

Discussion: (Summary description of project, special considerations, discussion of issues, etc.)

Waivers: (Attach for signature, if applicable, or embody in authorization).

Justification to the Congress: (Include page reference of Congressional Presentation, or date of other Congressional Notification).

Clearances Obtained: Human Rights Committee; others as appropriate.

Recommendation: That you sign the attached Project Authorization (or other attached document).

Attachments:

1. Project Authorizaiton (or Amendment to Project Authorization)
2. Project Paper
3. Waivers for which approval is requested.

Clearance:*
GC: (Type Name) Date _____
AAA/PPC/PDPR (Type Name) Date _____

ASIA/PD:JDoe;ms:3/21/80:Ext. 23456
(Drafter of Action Memorandum)
See Page No. V-3, Handbook 21, Supplement A, E.Drafting Information.

Note: The General Counsel and AAA/PPC/PDPR clear on the original. Bureau clearances should be kept to a minimum. Refer to Handbook 21, Supplement A, Page No. V-3, D. Clearances 1-4, 8.

* Wording and clearances shown for Action Memorandum to A/AID or his/her designee. For Memoranda to Bureau or Mission level authorizing officials, make appropriate deletions or substitutions, e.g., clearance by Legal Advisor in place of the General Counsel.

APPENDIX 5D

PROJECT AUTHORIZATION

Name of Country/Entity:_____ Name of Project: _____

Number of Project: _____

Number of Loan: _____

1. Pursuant to Section _____ of the Foreign Assistance Act of 1961, as amended, I hereby authorize the (project) for (the "Cooperating Country) involving planned obligations of not to exceed $ _____ in loan funds and $_____ in grant funds over a _____ year period from date of authorization subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange [and local currency, if applicable] costs for the project. The planned life of the project is ___ years and ___ months from the date of initial obligation.

2. The project consists of [provide a brief description consistent with the PP].

3. The Project Agreement(s) which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

4. a. Interest Rate and Terms of Repayment 1/

The Cooperating Country shall repay the Loan to A.I.D. in U.S. Dollars within forty (40) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. Dollars interest from the Date of first disbursement of the Loan at the rate of (a) two percent (2%) per annum during the first ten (10) years, and (b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon. [See note 1 for "intermediate" terms.]

b. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the project shall have their source and origin [in the Cooperating Country] 2/ or [in the United States] 2/ [in countries included in A.I.D. Geographic Code 941] 2/ except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have /the Cooperating Country/ 2/ or /the United States/ 2/ /countries included in A.I.D. Geographic Code 941/ 2/ as their place of nationality, except as A.I.D. may otherwise agree in writing.

4b

Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of _____ 3/.

*c. Other

Prior to the date of execution of the Project Agreement, the Cooperating Country shall furnish in form and substance satisfactory to A.I.D., _____.

*d. Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, the Cooperating Country shall furnish in form and substance satisfactory to A.I.D., _____

_____.

*e. Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance [particular activity], the Cooperating Country shall furnish in form and substance satisfactory to A.I.D., _____.

*f. The Cooperating Country shall covenant _____.

*g. The following waivers to A.I.D. regulations are hereby approved:

_____

Typed Name	Office Symbol	Date	Initials

Clearances:
A.
B.
C.
D.
E.
F.

Signature _____

_____
Typed Name of Authorizing Officer

_____
Office Symbol

*Asterisked paragraphs represent nonstandard provisions. A particular authorization may require some, all, or none of these paragraphs.

Guidance for preparing the authorization follows:

1/ For loans only. These are the most favorable terms offered by AID. Recent appropriations acts have specified harder loan terms for countries whose annual per capita gross national product exceed specified levels. (For example, the Foreign Assistance and Related Programs Appropriations Act, 1979 requires that loans to countries whose annual per capita gross national product is greater than $550 but less than $900 be repayable within 25 years from the date of first disbursement, and loans to countries whose annual per capita gross national product is greater than $900 be repayable within 20 years from the date of first disbursement.) Drafting offices should be careful to consult with the responsible offices in PPC and the Geographic Bureau to assure the authorization contains the correct loan terms.

2/ For source/origin/nationality provision, insert "in the United States" or the reference to Code 941 as appropriate; see policy at HB 1, Sup B, 5A1c. Insert "Cooperating Country" if local costs are to be financed (for projects in Central America, substitute "Central American Common Market" for "Cooperating Country").

3/ For Code 000 grants or loans, insert "The United States." For Code 941 grants or loans, insert "the United States, *other countries in Code 941, and* the Cooperating Country."

APPENDIX 5E

DRAFT AUTHORIZATION AMENDMENT

Name of Country/Entity: _____ Name of Project: _____

Number of Project: _____

Number of Loan: _____

1. Pursuant to Section _____ of the Foreign Assistance Act of 1961, as amended, the (project) for (Cooperating Country) was authorized on _____, 19__. That authorization is hereby amended as follows:

[Identify changes in the authorization]

a.

b.

2. The authorization cited above remains in force except as hereby amended.

Clearances: A.
B.
C.

Signature _____

_____
Typed Name of Authorizing Officer

_____
Office Symbol

Note: With incrementally funded loans, it is sometimes necessary to change the loan terms in midstream so that subsequent increments carry a different interest rate or different repayment period than was initially authorized for the loan as a whole. Such a change requires an amended authorization. An example of language which has been found suitable to do this follows; this example changes the loan terms to AID's standard ones. The language must be adjusted to fit the case at hand.

The Rural Roads Project II authorization, dated March 24, 1978, which authorized a Loan of $7,000,000 and approved the additional lending of $17,000,000, is amended to add to paragraph 'A. Interest Rate and Terms of Repayment' the following:

> 'Provided, that funds other than the first increment of $7,000,000 shall be repaid to A.I.D. in U.S. Dollars within 40 years from the date of the first disbursement of such other funds, including a grace period of not more than 10 years. The Cooperating Country shall pay to A.I.D., in U.S. Dollars, interest from the date of first disbursement of such funds at the rate of (a) 2% per annum during the first 10 years and (b) 3% per annum thereafter on the balance of such other funds and on any due and unpaid interest accrued thereon.'

CHAPTER 6
THE PROJECT AGREEMENT

CHAPTER 6

THE PROJECT AGREEMENT

6A. Introduction

1. This chapter presents guidance for preparation of the Project Agreement which obligates assistance for an activity, whether it is loan or grant financed. This guidance is not applicable to grants to private voluntary organizations for which HB 13 is the applicable reference.

2. The provisions appropriate for a given Project Agreement vary, based on factors such as, whether the assistance is lent or granted. Accordingly, alternate model formats are included. Despite the necessary variances, the formats have common provisions for all purposes where this is feasible.

3. Appendixes to this chapter are:

-- Appendix 6A-1: Project Loan Agreement

-- Appendix 6A-2: Project Grant Agreement

-- Appendix 6A-3: "Dual-Funded" Loan and Grant Project Agreement, for use where both loan and grant funds are provided for a project in the same instrument.

-- Appendix 6A-4: Grant Project Agreement (short-form) e.g., covering only participant training or small and simple projects.

-- Appendix 6B: Guidance Notes for Preparing Model Project/Loan and Grant Agreements.

--.Appendix 6C: Guidance Notes for Preparing Standard Provisions Annexes

-- Appendix 6C-1: Guidance for Preparing Amplified Project Descriptions

-- Appendix 6D: Additional Guidance Notes for Preparing Combined Loan and Grant Project Agreement

-- Appendix 6G: Guidance on Meeting the Case-Zablocki Act

-- Appendix 6H: Project Agreement Amendment Format

6B. Functions of Agreement

1. The Project Agreement (PROAG) is a document, normally bilateral but sometimes executed by more than two parties, which provides a written understanding between or among the parties as to the responsibilities for and timing of actions with respect to a given project. The Agreement represents the results of the planning and approval processes, previously discussed; establishes the framework of rules for implementation; and permits the formal start of implementation of the project. It reflects the commitments agreed upon by the parties to fulfill the stated goal, purpose(s) and methodologies of the project.

2. The PROAG obligates the United States (within the meaning of Section 1311 of the Supplemental Appropriation Act, 1955) to furnish up to a specified amount of assistance and clearly sets forth the terms and conditions under which such assistance is to be furnished, including undertakings or covenants made by the recipient country in respect to
* the project. The PROAG shall provide that U.S. funds be exchanged for local currency at the highest rate per U.S. dollar which at the time of the transaction is not unlawful in the recipient country. The A.I.D. policy governing the appropriate exchange rate at which A.I.D. or its agent exchange dollars for local currency under development assistance, economic support and operating expense funds is located in Handbook 1, Exchange Rate Policy. *

3. The PROAG presents a meaningful, informative summary of the total project agreed upon between the parties, and serves as a guide to its implementation. This Agreement indicates what is to be accomplished by the time the project is completed; what the end-of-project status ought to be and what outputs are to be achieved. These aspects of the Agreement are important to the monitoring and evaluation of the project.

6C. Use of Agreement

1. Normally, the PROAG is bilateral -- between two parties: the U.S. Government, represented by A.I.D., and the recipient country (or Borrower/Grantee - B/G). However, a Project Loan or Grant PROAG can also be used, for instance, with necessary modification, for regional projects with two or more recipient countries, for multilateral projects with two or more donors, or for projects involving regional or international organizations. Whether a Grant PROAG (short-form) could be so used would depend on how much modification of its less flexible format would be needed. The Mission should consult with GC or the RLA in the field in cases where it is uncertain whether use of the PROAG (short-form) would be appropriate.

* Revised

6C

2. Except as indicated below, the appropriate format of the model PROAG is to be used for all loan and grant projects. However, if circumstances dictate a clear need, another format may be approved by the implementing Bureau. For example:

a. Specialized activities, including those covered elsewhere in the Handbooks may, and in some cases must, use other formats. Examples are: (1) grants under Sec. 214 of the Foreign Assistance Act of 1961, as amended (FAA), administered by the Office of American Schools and Hospitals Abroad; (2) Housing Guaranty projects discussed in Handbook 7 - Housing Guaranties; (3) grants not involving foreign governments as signatories, such as certain grants administered by the Bureau for Science and Technology; (4) Operational Program Grants and other grants included within the scope of Handbook 13 - Grants, and; (5) grants to multi-national organizations.

b. The formats -- or at least some of the provisions -- shown in Appendices 6A-2, 6A-3, and 6A-4 need to be adjusted in the case of grant capital projects funded under FAA Secs. 103-106, since FAA Sec. 110(b) provides that no grant assistance is to be disbursed over more than 36 months without further justification, etc. For grant capital projects, therefore, special adjustments may have to be made in project design to accommodate the requirements of this section of the FAA. Section 110(b) does not apply with respect to grants to relatively least developed countries.

c. Where the project includes assistance provided through Intermediate Credit Institutions (ICIs) the formats shown in Appendix 6A would need significant revision to reflect appropriately the ICI relationships. The relatively complex features of Agreements for assistance provided through ICIs would normally require consultation with GC or the RLA.

d. Apart from the above cases where a revised format different from those in Appendices 6A-1 through 6A is used, changes or variations from formats of the model PROAGs may be made, where necessary, in accordance with 6E below.

6D. Content of Agreement

The model PROAG formats are presented in Appendix 6A; guidance on their use is provided in Appendices 6B through 6E.

1. The PROAG should be as brief as is consistent with fulfilling the primary functions outlined in 6B above. It should observe the distinction between items included as matters of substantive agreement, commitment or obligation, as distinct from items included as matters of general guidance, explanation, or information.

6D

2. Therefore, the PROAG should clearly set forth firm commitments or limitations, which must be complied with unless or until the agreement is amended or terminated. However, it should also provide adequate flexibility with respect to the details of the project. The text should not be so detailed as to require frequent amendments of the Agreement.

3. The PROAG should stand by itself (including annexes which form a part of it, such as the standard provisions annex, detailed description and any other documents to be incorporated by reference into the Agreement). It is not permissible to incorporate the Project Paper into the Agreement, as by reciting "as more fully described in the Project Paper" since, among other reasons, this will impose on any reader of the Agreement the need to review all of the PP to ascertain the effect of the Agreement.

4. For projects authorized on the basis of incremental funding by AID, the initial PROAG may describe the whole planned course of the project. However, care must be taken in describing the plans for the project to avoid the commitment of future year funds, unless such commitment is approved pursuant to the procedures described in this Handbook. (See Guidance Notes, Appendix 6B, at Grant Sec. 2.2 and Handbook 2, Chapter 5, Commitments of Foreign Economic Assistance.) The completion of joint planning documents is not prohibited by that guidance, provided it is made clear that a U.S. commitment to provide future year funds is not made. A clear implication of continued U.S. support which can reasonably be interpreted as a promise is regarded as a commitment. See Appendix 6B of this chapter for further details. Additional increments should be added by amending the financing sections of the Agreement (and to make any other necesary changes; e.g., in the financial plan); normally it should not be necessary to re-execute the whole Agreement.

5. Accordingly, the typical PROAG should state what is being furnished, by whom, for what, and subject to what restrictions. If on a loan basis, repayment terms are also specified. Thus the Agreement will contain:

a. AID's undertaking to provide financing for a specified purpose; i.e., to assist the B/G's execution of the project. Specific amounts or percentages of financing undertaken to be provided by the other party (or parties) to the Agreement should also be stated. (However, the recipient country's contribution is normally not limited to an amount stated, but instead includes the commitment to provide any other funds or resources needed for the project).

b. A description of the project for which the financing is provided. The Agreement's project description is based on and must be

consistent with the summary description of the project in the authorization; the authorization's description having in turn been based on, and been consistent with, that in the Project Paper. Refinement of the description during the drafting and negotiation of the PROAG is permitted, but substantive changes in the description, from that contained in the authorization, would need approval of an authorizing official. Because of the importance and amount of the information encompassed on the project description (e.g., including more detailed financial plans or budgets, the time phasing of inputs, achievement of targets, standards for evaluation, or other programming data), the description is divided into two parts.* A succinct, generalized description in the body of the Agreement, with a more detailed description attached as an annex, i.e., the Amplified Project Description. The initial description should be drafted so that a need to formally amend it should be unlikely, whereas provision is made to permit minor changes in the more detailed description by means of other formal exchanges, e.g., countersigned Project Implementation Letters. This division has the additional advantage that the detailed description can more readily contain matters of general guidance, information and explanation, as well as items such as achievement targets, or future plans, which are part of the shared expectations of the parties, but may not constitute formal commitments. Portions of the project on a Fixed Amount Reimbursement basis should be identified in the amplified project description or initial project implementation letter. Additionally, if known at the time of drafting, the description may discuss the evaluation program for the project.

The Grant PROAG (short-form) will normally not contain as much detail as the longer formats.

c. The establishment of an evaluation program is provided for in the PROAG. Specifically, a special covenant (Section 5.1 of the model loan agreement at Appexdix 6A-1, Sec. 4.1 of the grant agreement at Appendix 6A-2) covers establishment of such a program and delineates the elements to be covered. As noted in Appendix 6B, if those particular elements cannot by then be agreed upon, submission of an acceptable evaluation program will normally be a condition precedent to disbursement. (See further discussions in Guidance Notes, Appendices 6B through 6D.)

The Grant PROAG (short-form) will handle evaluation under its "Special Provisions"; a standard provision is not included.

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*See Appendix 6 B for detailed guidance.

d. If appropriate, the Agreement should contain conditions precedent to disbursement of U.S. funds. These are less likely to be found necessary in the Grant PROAG (short-form) than in the Grant PROAG and the Project Loan Agreement. Conditions precedent can be substantive actions (as opposed to financial steps) the recipient must take; financial steps such as budget allocations; specific organizational steps; logistic arrangements; administrative arrangements (such as legal opinions, etc.); or other. In general, conditions precedent should be limited to those without which the project should not go forward. Conditions precedent called for by the authorization will, of course, be covered verbatim or in substance in the Agreement. Other conditions which were outlined in the project paper, but not included in the authorization, shall be included in the Agreement in final form(s) as negotiated with the B/G.

e. The Agreement will normally contain covenants, i.e., formal undertakings by the recipient. These may be general in nature, or may be particularly framed for the project. Covenants called for by the authorization will, of course, be covered verbatim or in substance in the Agreement. Other covenants which were outlined in the project paper, but not included in the authorization, shall be included in Agreement in final form(s) as negotiated with the B/G. An undertaking to aim for specific targets, as objectively verifiable means to determine achievement, may be a covenant (but normally should be part of the Amplified Project Description, Annex 1 to the Agreement). If such achievement-oriented targets are stated as covenants, the Agreement should make clear that such targets are aims, not the kind of promises (like promises to make a specified input) which can result in default under the Agreement if not fulfilled.

The Grant PROAG (short-form), which contains in its Standard Provisions annex a number of general covenants, may or may not require additional more specific covenants in its Special Provisions section.

f. An AID official should be sure that the Agreement, whether loan or grant, will be signed by officials formally authorized to do so and by such signature(s) to commit the host government to the undertakings contained in the Agreement. A host government legal opinion confirming such signature authority is routinely required as a condition precedent to disbursement or effectiveness of the Project Loan Agreement and may, if deemed necessary by the authorizing official be required as a similar condition precedent in a Grant PROAG.

g. Provisions of the Agreement are to cover applicable statutory and regulatory requirements; e.g., AID procurement policies and procedures, record keeping requirements, audit and inspection requirements. Such provisions also cover disbursement mechanics, as well as remedies, such as refund rights or default and termination provisions.

h. Project agreements contain time controls based on a Project Assistance Completion Date (PACD), including a period for requesting disbursements. In addition, if applicable, there are to be terminal dates for meeting conditions precedent. Intermediate time controls (e.g., such as a terminal date for requesting Letters of Commitment) may be adopted, if necessary, in particular projects or for particular items.

(1) The PACD is defined as the date, agreed upon by the parties in the PROAG, by which the parties estimate that all AID-financed project assistance will be complete. This will normally mean the date by which all AID financed services will have been performed and all goods furnished. As between the parties to the Agreement, goods will normally be considered to have been "furnished" when they have been put in place in the cooperating country as contemplated by the PROAG. However, the parties may in the PROAG or Project Implementation Letter define differently when goods have been considered furnished for purpose of the project. Other information, and certain exceptions to this summary definition, e.g., work which may be performed under a warranty period, are addressed in the Guidance Notes at Appendix 6B, under Sec. 3.3. It should be noted that the PACD defines the length of AID's official involvement in financing inputs for the project. It does not mean that AID's responsibilities or activities are completed, e.g., monitoring, nor does it have any implications regarding cooperating country actions or responsibilities to complete the project and see that it generates the benefits intended.

(2) The purpose of a terminal date such as the PACD is to motivate the parties to complete the project as effectively and expeditiously as possible. By the terminal date, work under all contracts, or all work for which reimbursement will be sought, should have been performed so that only financial actions by the B/G or the contractor -- such as submitting requests for reimbursement, vouchers or other billings -- will remain (as will the actions of the banks or of AID in making payments).

(3) The PACD has several functions:

(a) It declares the point in time by which the AID assistance ought to be complete, in the sense of the transfer of skills and resources made. (Note that the B/G may have a longer definition of the project in terms of its own endeavors: for instance its plans may contemplate a longer-continued span of inputs, not to exclude continued operation of the activity.)

(b) The PACD provides a positive (but not automatic) reference point for concluding the AID assistance, by stating that, except as it may agree, AID will not issue or approve documentation which would authorize disbursement for services performed or goods furnished after the PACD.

(c) Thus, AID may decline to issue or amend contracts, letters of commitment or of credit, or other project documentation, if to do so would permit post-PACD performance or furnishing. Also, where the financing is on a reimbursement basis, AID may decline to approve a request for reimbursement for post-PACD performance or furnishing. (This limitation should have been established, of course, in the documentation approving the time for reimbursement financing.) However, since it may happen that in the final months of a nearly completed project, AID may not desire to exercise this cutoff, the Agreement's provision does not flatly require cutoff (or amendment of the date whether prior to or after the date's arrival); it merely gives AID the option to decline financing beyond this point. Automatic triggering does not occur; instead, a judgment must be made by AID, based on the situations of the project and the parties, and based on internal AID guidance on what time delays in a project can be approved at what level.

(4) The PACD provision in the Agreement also contains what is in effect a terminal date for requesting disbursements, stated in the model formats as nine months following the PACD. Beyond this time, or its execution, AID may decline to accept requests for disbursement, and may initiate deobligation procedures, and deobligate. However, passage of the period does not automatically effect deobligtion, in either the loan or grant case. Such deobligation is a positive management decision, embodied in the written notice to B/G mentioned in the Standard Provisions Annex, Section 3.3(c) of Project Loan and Grant PROAGs.

(The same analysis with respect to deobligation is valid for conditions precedent: the purpose of conditions precedent is to spur the parties to specified actions by specified dates. Failure to meet the dates will give AID the option to terminate, but will not automatically effect termination and deobligation, in either the loan or grant case. Termination is a positive management decision, embodied in the written notice to B/G as described in the PROAG, Section 5.4(b).)

6E. Changes from Model Agreement Formats

1. Changes or variations from the content of the model formats in Appendix 6A may be found necessary for a particular project or country.

2. For some matters, the guidance notes at Appendix 6B expressly contemplate that modification of the model formats of Appendix 6A may be required. The model formats themselves also indicate, from place to place, by the use of square brackets, that a drafting decision is necessary.

3. For matters as to which the guidance does not explicitly indicate that options or changes may be adopted, exception from those model formats may be authorized by the responsible Assistant Administrator, in consultation with Agency legal staff. Whenever a significant exception is made, the pertinent office assures that the appropriate file or files contain a written record, in copies of telegrams or otherwise, which reflects the basis for the exception. In addition, because of the annex's greater content of statutory and regulatory material, no changes in a standard provision annex are to be made without the clearance of Agency legal staff. Apart from this, and from other customary procedures, post-agreement review by interested offices is the norm.

4. Use of the standard provisions annex is intended to conserve time and to aid staff — of each party -- in successive projects, by consolidating provisions which are more likely to be uniform from project to project.

a. In the case of the formats at Appendices 6A-1, 6A-2, and 6A-3, if changes in this annex are approved, they should be made in the annex, rather than by "changes" clause in the main text. If for local reasons it is felt necessary to place the standard provisions in the main text (in effect putting the signature block following this annex) the legal advisor may so draft the Agreement.

b. By contrast, in the case of the Grant PROAG (short-form) at Appendix 6A-4, if changes in its annex are found unavoidable and are approved, they must be made in the "special provisions" portion of the text, overruling the annex, since the annex is a printed form.

6F. Execution of Bilateral Project Agreements

1. General conditions

As mentioned in Chapter 5 of this Handbook, significant features of the PROAG, including proposed terms and conditions, should be discussed with all relevant project parties during the period between the PID and PP. Agency legal staff will be responsible for the final drafting (and where necessary the entire drafting process) of project agreements for all loans and for grant-financed projects that are more complex than normal. Factors which should be considered in determining whether a grant project is "more complex" include: its dollar value and, financing mechanisms; whether there are more than two parties to the Agreement or to the project; the extent of special covenants and conditions; whether the AID-financed inputs are diverse and more complex; whether the project is unique or the first of its kind; etc. The Mission or authorized AID office may enter into formal negotiations on a PROAG based upon the appropriate model found in Appendix 6A, and the authorizations are described in Chapter 5 of this Handbook.

Project Negotiations

To a large extent, the substance of the project will be negotiated with the B/G prior to submission of the Project Paper for final review and authorization. These negotiations are undertaken not only with the B/G ministry which will execute the Agreement, but also with appropriate B/G operational ministries which will have project responsibilities. Such negotiations will normally cover:

- Project description;
- Implementation approach and schedule(s);
- Responsibilities of donors and participants;
- Scope and timing of physical/financial/human resources provided;
- Procurement methods and schedules;
- Structure and methods of implementing agencies;
- Conditions and covenants;
- Special problems experienced in implementing projects in that country or sector (See section below on closing requirements and, in particular, the question of host country taxation);
- Project Evaluation.

If changes in the substance of a project are required as part of the AID review/approval process, these changes will be discussed with the B/G during final negotiations.

Since time is an important resource in development, Project Officers are responsible for seeing that projects are thoroughly and promptly negotiated with the B/G and all important elements and responsibilities covered between the parties. If an Agreement is properly developed and negotiated, chances are implementation will start sooner and proceed more smoothly. To improve B/G understanding of and compliance with terms and conditions in the Agreement, the draft Agreement, especially the manner in which implementation requirements are to be satisfied.

Closing Requirements

"Closing requirements" is a term taken from the field of finance and refers to actions to be completed at the formal closing of a financial transaction. The classic examples are in real estate or corporate finance where final, binding legal agreements are executed and money changes hands.

6F1

The parallel to "closing" in an AID project is the signing of a PROAG with the B/G. Completion of closing requirements usually entitles each party to immediate access to its element under the exchange/sale agreement, e.g., all monies are presented and documents signed and exchanged, which results in a direct transfer of title to property or monies and rights to the full use thereof.

Under most AID Agreements, access of the B/G to AID financial resources is delayed beyond signing until certain conditions precedent to disbursement are satisfied. Satisfaction of these requirements usually takes several months and is accomplished by submission of certain B/G legal documents and/or implementation plans, etc. If such documentary requirements can be satisfied beforehand, or presented simultaneously with signing of the Agreement, then access to AID funds can be accelerated and project momentum maximized.

AID and the B/G should take full advantage of leverage provided by the signing of an Agreement to accelerate satisfaction of conditions precedent and the initiation of project implementation. In most countries and projects both parties can prepare documents and have them ready for presentation of execution simultaneously with the signing of the Agreement. The specific actions or documents will vary with each project. However, AID prepares or participates in the preparation of several typical documents and every effort should be made to complete them as "closing" documents for signature of the Agreement.

Project officers should work closely with B/G counterparts and, as appropriate, the following documents negotiated in draft and ready in final form for approval, issuance or execution at the same time the Agreement is signed:

- Basic Project Implementation Letter;
- Scope of work, or preferably, Request for Technical Proposals for technical services;
- Technical specifications and delivery schedules for commodities or, preferably, the completed Invitation(s) for Bid;
- Draft advertisement for Commerce Business Daily or other publications;
- B/G applications to AID for the opening of Letters of Commitment or other funding;
- As appropriate, B/G organization charter(s), implementation arrangements, plans and detailed schedules.

6F1

If the Agreement is viewed as the culmination of a negotiation process first begun during the project's design, then its signing should reflect also the mutual understanding and acceptance by the parties of all major elements of the project. Significant issues should not be left for resolution during the project's implementation. Signing an Agreement without full commitment to project elements or responsibilities can result in lengthy project delays and increases in project costs.

Project Resources. The timely provision by the B/G of its contribution is very important to the success of the project. For example, the effectiveness of AID-financed technical assistance personnel will often depend, in part, on the adequate and timely logistic and housing support provided by the B/G. Again, it is the responsibility of the project officer to assure that, in fact, the B/G makes support available.

Project Administration. Very often the B/G has the responsibility of establishing or designating an office(r) or establishing some other mechanisms to direct or coordinate project activities. For many activities, such an office(r) or mechanism (e.g., interagency coordinating committee) is critical to project success. Where appropriate, the project officer ensures that the B/G has taken or will take the necessary action to produce effective coordination.

-- Taxation. The procedures under which goods and services financed by AID will be provided on a duty-free or special tax treatment basis (whereby AID doesn't finance identifiable taxes) should be determined prior to implementation. Lacking this, commodities may not clear through customs in a timely fashion. The project officer must be certain when the Agreement is signed that procedures have been agreed to by all relevant ministries to provide for duty-free or special treatment, acceptable to all relevant ministries, in order to avoid unnecessary delays in implementation.

If these or other issues appear to the project officer as posing significant potential for implementation delays, these problem areas must, where feasible, be negotiated and agreed to by the parties prior to signing the Agreement to avoid later misunderstanding concerning the responsibilities of each. Resolution of these issues may be reflected in the initial project implementation letter. The leverage afforded by the signing of the Agreement should not be lost. If any important issue has not been resolved to the satisfaction of all parties concerned, the responsible office should consider postponing the execution of the Agreement.

Additionally, in its negotiations with the B/G, the responsible officer may wish to ask the B/G to be prepared to submit, at the signing of the Agreement, documentation required to satisfy the initial conditions precedent.

For example, under current practices, a project may be delayed up to 90 days after execution of the Agreement while the B/G prepares a legal opinion and a statement of authorized representatives. Where possible these documents can be prepared for AID approval at the same time the Agreement is executed.

2. Signing Authority

Normally, PROAGs are executed in the field pursuant to authority delegated to the Mission Director or U.S. Ambassador; often, authority to negotiate and to sign are given together. Such delegations of authority may be existing, or may be made by appropriate AID/W officials only in connection with a given project. It is important to note that in the absence of an ad hoc delegation of authority, ambassadors are not normally authorized to sign AID PROAGs. Procedural Caution: Because authorization of projects and allotment of funds are separate actions, the responsible AID official must be certain that an allotment of funds has been made for the project prior to the signature of the project agreement. (Consult Regional Bureau and Controller procedures for making allotments.)

6G. Publicity Regarding Authorization of Funding

It is AID policy to publicize assistance to countries and groups whenever appropriate. Public notice can take place either at the time of authorization of assistance or when the PROAG is signed. Guidance on public announcements is found in Appendix 6F of this Chapter.

6H. Distribution of Bilateral Project Agreements

1. Signed Agreements

One signed and dated copy of the PROAG is given to each B/G and to each other party, if any, to the Agreement. One signed and dated copy of each Project Loan Agreement, and of any Grant PROAG under which disbursements are to be effected by AID/W, is forwarded by the Mission to AID/W, immediately following execution, for the official files of M/FM/LD and M/FM/BFD for loan and grant agreements.

2. Conformed Agreement

The Mission distributes conformed copies or photostat copies of the signed agreement to the B/G and to Regional Bureau. The Regional Bureau distributes conformed copies appropriately within AID/W, including the Office of Development Information and Utilization (S&T/DIU).

3. Case-Zablocki Act Compliance

Two certified copies of certain international agreements must be forwarded to the Office of the General Counsel (GC), AID/W, pursuant to the instructions in Appendix 6G of this Chapter.

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(proposed face sheet)

A.I.D. Loan Number_____

Project Number_____

PROJECT

LOAN AGREEMENT

BETWEEN

(Name of Country)

and the

UNITED STATES OF AMERICA

for

(Name of Project)

Dated:

(Note: Loans have a separate loan number - although grants have only a project number - for technical reasons which include the need to identify readily repayments under a given loan, and to track the subsequent history of the loan over a period up to 40 years.

A.I.D. Project No._____

Project Loan Agreement

Dated , 19__

Between

[Insert name of country] ("Borrower")[1/]

And

The United States of America, acting through the Agency for International Development ("A.I.D.").

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Borrower of the Project described below, and with respect to the financing of the Project by the Parties.

Article 2: The Project

SECTION 2.1. Definition of Project. The Project, which is further described in Annex 1, will consist of _____. Annex 1, attached, amplifies the above definition of the Project.

Within the limits of the above definition of the Project, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 9.3, without formal amendment of this Agreement.

Article 3: Financing

SECTION 3.1. The Loan. To assist the Borrower to meet the costs of carrying out the Project, A.I.D., [in furtherance of the Alliance for Progress and] pursuant to the Foreign Assistance Act of 1961, as amended, agrees to lend the Borrower under the terms of this Agreement not to exceed_____ United States ("U.S.") dollars ($_____) ("Loan"). The aggregate amount of disbursements under the Loan is referred to as "Principal."

1/ The phrase "Cooperating Country" may be used in lieu of "Borrower" throughout the Agreement.

Article 3: Financing (Continued)

[In preparing Agreement, select #1, #2, or #3 following as applicable]:

[#1: The Loan may be used only to finance foreign exchange costs, as defined in Section 7.1, of goods and services required for the Project.]

[#2: The Loan may be used to finance foreign exchange costs, as defined in Section 7.1, and local currency costs, as defined in Section 7.2, of goods and services required for the Project.]

[#3: The Loan may be used to finance foreign exchange costs, as defined in Section 7.1, and local currency costs, as defined in Section 7.2, of goods and services required for the Project, except that, unless the parties otherwise agree in writing, Local Currency Costs financed under the Loan will not exceed the equivalent of _____ U.S. Dollars ($ _____).]

SECTION 3.2. Borrower Resources for the Project. (a) The Borrower agrees to provide or cause to be provided for the Project all funds, in addition to the Loan, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by Borrower for the Project will be not less than the equivalent of U.S. $ _____, including costs borne on an "in-kind" basis.

SECTION 3.3. Project Assistance Completion Date

(a) The "Project Assistance Completion Date" (PACD), which is _____, 19__, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Loan will have been performed and all goods financed under the Loan will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Loan for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 8.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Borrower, may at any time or times reduce the amount of the Loan by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

Article 4: Loan Terms

SECTION 4.1. Interest. The Borrower will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance will accrue from the date (as defined in Section 8.5) of each respective disbursement, and will be payable semiannually. The first payment of interest will be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by A.I.D.

SECTION 4.2. Repayment. The Borrower will repay to A.I.D. the Principal within forty (40) years from the date of the first disbursement of the Loan in sixty-one (61) approximately equal semiannual installments of Principal and interest. The first installment of Principal will be payable nine and one-half (9-1/2) years after the date on which the first interest payment is due in accordance with Section 4.1. A.I.D. will provide the Borrower with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

SECTION 4.3. Application, Currency, and Place of Payment. All payments of interest and Principal hereunder will be made in U.S. Dollars and will be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C. 20523, U.S.A., and will be deemed made when received by the Office of Financial Management.

SECTION 4.4. Prepayment. Upon payment of all interest and any refunds then due, the Borrower may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of Principal in the inverse order of their maturity.

SECTION 4.5. Renegotiation of Terms. (a) The Borrower and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects of [name of country], which enable the Borrower to repay the Loan on a shorter schedule.

(b) Any request by either Party to the other to so negotiate will be made pursuant to Section 9.2, and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to Section 9.2, the name and address of the person or persons who will represent the requested Party in such negotiations.

Article 4: Loan Terms (Continued)

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under subsection (c). The negotiations will take place at a location mutually agreed upon by the representatives of the Parties, provided that, in the absence of mutual agreement, the negotiations will take place at the office of Borrower's [title of Minister] in [name of country].

SECTION 4.6. Termination on Full Payment. Upon payment in full of the Principal and any accrued interest, this Agreement and all obligations of the Borrower and A.I.D. under it will cease.

Article 5: Conditions Precedent to Disbursement

SECTION 5.1. First Disbursement. Prior to the first disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;

(b) A statement of the name of the person holding or acting in the office of the Borrower specified in Section 9.3, and of any additional representatives, together with a specimen signature of each person specified in such statement;

[(c) An executed contract for engineering or other services for the Project acceptable to A.I.D. with a firm acceptable to A.I.D.;]

[(d) Other conditions to be inserted as appropriate; e.g., including financial obligations of the Borrower.]

SECTION 5.2. Additional Disbursement. Prior to disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, for any purpose other than to finance the [services] referred to in Section 5.1, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

/(a) Invitations for bids or requests for proposals for procurement of construction services or project commodities estimated to exceed $100,000, including any local currency portion, prior to their issuance;

/(b) Contracts financed under the loan in excess of $100,000, including any local currency portion, prior to their execution by the Borrower.

[(c) The evaluation program referred to in Section 6.1;

Article 4: Loan Terms (Continued)

[(d) Additional conditions to be inserted, as appropriate, including, e.g., provisions relating to:

[Procurement and installation of goods; budgetary approvals; management; organization, training; maintenance, and operation; other legal and administrative actions, such as permits, licenses, privileges, easements, etc.]

SECTION 5.3. Notification. When A.I.D. has determined that the conditions precedent specified in Section 5.1 [and 5.2] have been met, it will promptly notify the Borrower.

SECTION 5.4. Terminal Dates for Conditions Precedent.

(a) If all of the conditions specified in Section 5.1 have not been met within _____ days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Borrower.

(b) If all of the conditions specified in Section 5.2 have not been met within _____ days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may cancel the then undisbursed balance of the Loan, to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to the Borrower. In the event of such termination, the Borrower will repay immediately the Principal then outstanding and any accrued interest; on receipt of such payments in full, this Agreement and all obligations of the Parties hereunder will terminate.

Article 6: Special Covenants

SECTION 6.1. Project Evaluation. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter: (a) evaluation of progress toward attainment of the objectives of the Project; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems; and (d) evaluation, to the degree feasible, of the overall development impact of the Project.

[other special covenants as appropriate]

Article 7: Procurement Source

SECTION 7.1. Foreign Exchange Costs. Disbursements pursuant to Section 8.1 will be used exclusively to finance the costs of goods and services

Article 7: Procurement Source (Continued)

required for the project having with respect to goods, their source and origin and with respect to services, their nationality in [countries included in Code 941 of the AID Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods and services] [the United States (Code 000 of the AID Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods or services)] ("Foreign Exchange Costs"), except as AID may otherwise agree in writing, and except as provided in the Project Loan Standard Provisions Annex, Section C.1(b) with respect to marine insurance. Ocean transportation costs will be financed under the loan only on vessels under flag registry of [the United States] [the cooperating country, *the United States, and other* countries included in AID Geographic Code 941], except as AID may otherwise agree in writing.

[Section 7.2 Local Currency Costs. Disbursements pursuant to Section 8.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as AID may otherwise agree in writing, their origin in [name of country] ["Local Currency Costs")]. [To the extent provided under this Agreement, "Local Currency Costs" may also include the provision of local currency resources required for the Project.]]

Article 8: Disbursements

Section 8.1 Disbursements for Foreign Exchange Costs.

(a) After satisfaction of Conditions Precedent, the Borrower may obtain disbursements of funds under the Loan for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement by such of the following methods as may be mutually agreed upon:

(1) by submitting to A.I.D. with necessary supporting documentation as prescribed in Project Implementation Letters, (a) requests for reimbursement for such goods or services, or (B) requests for A.I.D. to procure commodities or services in Borrower's behalf for the Project; or

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letter of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by Borrower in connection with Letters of Commitment and Letters of Credit will be financed under the Loan unless the Borrower instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Loan.

[Section 8.2 Disbursements for Local Currency Costs.

(a) After satisfaction of Conditions Precedent, the Borrower may obtain disbursements of funds under the Loan for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.]

Article 8: Disbursements (Continued)

(b) The local currency needed for such disbursement hereunder may be obtained:

(1) by acquisition by A.I.D. with U.S. dollars by purchase [or from local currency already owned by the U.S. Government]; or

(2) by A.I.D. (A) requesting the Borrower to make available the local currency for such costs, and (B) thereafter making available to the Borrower through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the Borrower or its designee, an amount of U.S. Dollars equivalent to the amount of local currency made available by the Borrower, which dollars will be utilized for procurement from the United States under appropriate procedures described in Project Implementation Letters.

[The U.S. dollar equivalent of the local currency made available hereunder will be, in the case of subsection (b)(1) above, the amount of U.S. dollars required by A.I.D. to obtain the local currency, and in the case of subsection (b)(2) above, an amount calculated at the rate of exchange specified in the applicable Special Letter of Credit Implementation Memorandum hereunder as of the date of the opening or amendment of the applicable Special Letter of Credit.]

SECTION 8.3. Other Forms of Disbursement. Disbursements of the Loan may also be made through such other means as the Parties may agree to in writing.

SECTION 8.4. Rate of Exchange. Except as may be more specifically provided under Section 8.2, if funds provided under the Loan are introduced into [name of the country] by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Borrower will make such arrangements as may be necessary so that such funds may be converted into currency of [name of country] at the highest rate of exchange which, at the time the conversion is made, is not unlawful in [name of country].

SECTION 8.5. Date of Disbursement. Disbursements by A.I.D. will be deemed to occur (a) on the date on which A.I.D. makes a disbursement to the Borrower or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment, contract, or purchase order; (b) on the date on which A.I.D. disburses to the Borrower or its designee local currency acquired in accordance with Section 8.2(b)(1); or (c) if local currency is obtained in accordance with Section 8.2(b)(2), on the date on which A.I.D. opens or amends the Special Letter of Credit there referred to.

Article 9: Miscellaneous

SECTION 9.1. Investment Guaranty Project Approval

Construction work to be financed under this Agreement is agreed to be a project approved by [name of country] pursuant to the agreement between it and the United States of America on the subject of investment guaranties, and no further approval by [name of country] will be required to permit the United States to issue investment guaranties under that agreement covering a contractor's investment in that project.

SECTION 9.2. Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address:

To the Borrower:

Mail Address:

Alternate address for telegrams:

To A.I.D.:

Mail Address:

Alternate address for telegrams:

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice. The Borrower, in addition, will provide the USAID Mission with a copy of each communication sent to A.I.D.

SECTION 9.3. Representatives. For all purposes relevant to this Agreement, the Borrower will be represented by the individual holding or acting in the office of _____ and A.I.D. will be represented by the individual holding or acting in the office of _____, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex 1. The names of the representatives of the Borrower, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Article 9: Miscellaneous (Continued)

SECTION 9.4. Standard Provisions Annex. A "Project Loan Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

[SECTION 9.5. Language of Agreement. This Agreement is prepared in both English and [French, Spanish, etc.]. In the event of ambiguity or conflict between the two versions, the English language version will control.]

IN WITNESS WHEREOF, the Borrower and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

[NAME OF COUNTRY OR BORROWER]

By: _____

Title: _____

UNITED STATES OF AMERICA

By: _____

Title: _____

Annex 1

Amplified Description of the Project

ANNEX 2

Project Loan Standard

Provisions Annex

Definitions: As used in this Annex, the "Agreement" refers to the Project Loan Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

Article A: Project Implementation Letters. To assist Borrower in the implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Project in Annex 1.

Article B: General Covenants

SECTION B.1. Consultation. The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations under this Agreement, the performance of any consultants, contractors, or suppliers engaged on the Project, and other matters relating to the Project.

SECTION B.2. Execution of Project. The Borrower will:

(a) carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules, or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement; and

(b) provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

SECTION B.3. Utilization of Goods and Services.

(a) Any resources financed under the Loan will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project.

(b) Goods or services financed under the Loan, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use. [See Handbook 18, Appendix D.]

SECTION B.4. Taxation.

(a) This Agreement and the Loan will be free from, and the Principal and interest will be paid free from, any taxation or fees imposed under laws in effect in the territory of the Borrower.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Loan, and any property or transactions relating to such contracts and (2) any commodity procurement transaction financed under the Loan are not exempt from identifiable taxes, tariffs, duties, or other levies imposed under laws in effect in the territory of the Borrower, the Borrower will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Loan.

SECTION B.5. Reports, Records, Inspections, Audit.

The Borrower will:

(a) furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation. the receipt and use of goods and services acquired

SECTION B.5.(b)

under the Loan. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.; such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion; and

(c) afford authorized representatives of a Party the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed by such Party, and books, records, and other documents relating to the Project and the Loan.

SECTION B.6. Completeness of Information. The Borrower confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Loan, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement;

(b) that it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the discharge of responsibilities under this Agreement.

SECTION B.7. Other Payments. Borrower affirms that no payments have been or will be received by any official of the Borrower in connection with the procurement of goods or services financed under the Loan except fees, taxes, or similar payments legally established in the country of the Borrower.

SECTION B.8. Information and Marking. The Borrower will give appropriate publicity to the Loan and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed by A.I.D., as described in Project Implementation Letters.

Article C: Procurement Provisions

SECTION C.1. Special Rules.

(a) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(b) Premiums for marine insurance placed in the territory of the Borrower will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

(c) Any motor vehicles financed under the Loan will be of United States manufacture, except as A.I.D. may otherwise agree in writing.

SECTION C.2. Eligibility Date. No goods or services may be financed under the Loan which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

SECTION C.3. Plans, Specifications, and Contracts. In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

(a) The Borrower will furnish to A.I.D. upon preparation:

(1) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the Loan, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished A.I.D. on preparation;

(2) such documentation will also be furnished to A.I.D., upon preparation, relating to any goods or services which, though not financed under the Loan, are deemed by A.I.D. to be of major importance to the Project. Aspects of the Project involving matters under this subsection (a) (2) will be identified in Project Implementation Letters;

(b) Documents related to the prequalification of contractors, and to the solicitation of bids or proposals for goods and services financed under the Loan will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements;

SECTION C.3.

(c) Contracts and contractors financed under the Loan for engineering and other professional services, for construction services, and for such other services, equipment, or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to execution of the contract. Material modifications in such contracts will also be approved in writing by A.I.D. prior to execution; and

(d) Consulting firms used by the Borrower for the Project but not financed under the Loan, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the Borrower for the Project but not financed under the Loan shall be acceptable to A.I.D.

SECTION C.4. Reasonable Price. No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Loan. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis.

SECTION C.5. Notification to Potential Suppliers. To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Loan, the Borrower will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

SECTION C.6. Shipping.

(a) Goods which are to be transported to the territory of the Borrower may not be financed under the Loan if transported either:

(1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment; or

(2) on an ocean vessel which A.I.D., by written notice to the Borrower has designated as ineligible; or

(3) under an ocean or air charter which has not received prior A.I.D. approval.

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Loan, if such goods or persons are carried:

SECTION C.6.

(1) on an ocean vessel or aircraft under the flag of a country not, at the time of shipment, identified under the paragraph of the Agreement entitled "Procurement Source: Foreign Exchange Costs," without prior written A.I.D. approval; or

(2) on an ocean vessel which A.I.D., by written notice to the Borrower, has designated as ineligible; or

(3) under an ocean vessel or air charter which has not received prior A.I.D. approval.

(c) Unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels,

(1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported of privately owned United States-flag commercial vessels, and

(2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by A.I.D. and transported to the territory of the Borrower on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to any cargo transported from U.S. ports and also any cargo transported from non-U.S. ports, computed separately.

SECTION C.7. <u>Insurance</u>

(a) Marine insurance on goods financed by A.I.D. which are to be transported to the territory of the Borrower may be financed as a Foreign Exchange Cost under this Agreement provided,

(1) such insurance is placed at the lowest available competitive rate, and

(2) claims thereunder are payable in U.S. dollars or, as A.I.D. may agree in writing, the currency in which such goods were financed or in any freely convertible currency.

If the Borrower (or government of Borrower), by statute, decree, rule, regulation, or practice discriminates with respect to A.I.D.-financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to the territory of the Borrower financed by A.I.D. hereunder will be insured against marine risks and such insurance will be

placed in the United states with a company or companies authorized to do a marine insurance business in a State of the United States.

(b) Except as A.I.D. may otherwise agree in writing, the Borrower will insure, or cause to be insured, goods financed under the Loan imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indeminification received by the Borrower under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Borrower for the replacement of repair of such goods. Any such replacement will be of source and origin of countries listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

SECTION C.8. U.S. Government-Owned Excess Property The Borrower agrees that wherever practicable United States Government-owned excess property, in lieu of new items financed under the Loan, should be utilized. Funds under the Loan may be used to finance the costs of obtaining such property for the Project.

Article D: Termination; Remedies.

SECTION D.1. Cancellation by Borrower. The Borrower may, by giving A.I.D. 30 days written notice, cancel any part of the Loan which has not been disbursed or committed for disbursement to third parties.

SECTION D.2. Events of Default; Acceleration. It will be an "Event of Default" if Borrower shall have failed:

(a) to pay when due any interest or installment of Principal required under this Agreement, or

SECTION D.2.

(b) to comply with any other provision of this Agreement, or

(c) to pay when due any interest or installment of Principal or other payment required under any other loan, guaranty or other agreement between the Borrower or any of its agencies and A.I.D. or any of its predecessor agencies. If an Event of Default shall have occurred, then A.I.D. may give the Borrower notice that all or any part of the unrepaid Principal will be due and payable sixty (60) days thereafter, and, unless such Event of Default is cured within that time:

(1) such unrepaid Principal and accrued interest hereunder will be due and payable immediately, and

(2) the amount of any further disbursements made pursuant to then outstanding commitments to third parties or otherwise will become due and payable as soon as made.

SECTION D.3. Suspension. If at any time:

(a) An Event of Default has occurred; or

(b) An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of the Loan will be attained or that the Borrower will be able to perform its obligations under this Agreement; or

(c) Any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.; or

(d) The Borrower shall have failed to pay when due any interest, installment of principal or other payment required under any other loan, guaranty, or other agreement between the Borrower or any of its agencies and the Government of the United States or any of its agencies;

Then A.I.D. may:

(1) suspend or cancel outstanding commitment documents to the extent they have not been utilized through irrevocable commitments to third parties or otherwise, giving prompt notice thereof to the Borrower;

(2) decline to issue additional commitment documents or to make disbursements other than under existing ones; and

SECTION D.3.

(3) at A.I.D.'s expense, direct that title to goods financed under the Loan be transferred to A.I.D. if the goods are from a source outside Borrower's country, are in a deliverable state and have not been offloaded in ports of entry of Borrower's country. Any disbursement made under the Loan with respect to such transferred goods will be deducted from Principal.

SECTION D.4. Cancellation by A.I.D. If, within sixty (60) days from the date of any suspension of disbursements pursuant to Section D.3, the cause or causes thereof have not been corrected, A.I.D. may cancel any part of the Loan that is not then disbursed or irrevocably committed to third parties.

SECTION D.5. Continued Effectiveness of Agreement. Notwithstanding any cancellation, suspension of disbursements, or acceleration of repayment, the provisions of this Agreement will continue in effect until the payment in full of all Principal and accrued interest hereunder.

SECTION D.6. Refunds.

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies provided for under this Agreement, may require the Borrower to refund the amount of such disbursement in United States Dollars to A.I.D. within sixty (60) days after receipt of a request therefor. The right to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three (3) years from the date of the last disbursement under this Agreement.

(b)

(1) Any refund under the preceding subsection, or

(2) any refund to A.I.D. from a contractor, supplier, bank, or other third party with respect to goods or services financed under the Loan, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will,

SECTION D.6(b)(2)

A. be made available first for the cost of goods and services required for the Project, to the extent justified, and

B. the remainder, if any, will be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan reduced by the amount of such remainder.

SECTION D.7. Nonwaiver of Remedies. No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

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A.I.D. Project Number_____

PROJECT

GRANT AGREEMENT

BETWEEN

(Name of Country)

and the

UNITED STATES OF AMERICA

for

(Name of Project)

Dated:

A.I.D. Project No. _____

Project Grant Agreement

Dated , 19___

Between

[insert name of country] ("Grantee")[1/]

And

The United States of America, acting through the Agency for International Development ("A.I.D.").

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Grantee of the Project described below, and with respect to the financing of the Project by the Parties.

Article 2: The Project

SECTION 2.1. Definition of Project. The Project, which is further described in Annex 1, will consist of _____. Annex 1, attached, amplifies the above definition of the Project. Within the limits of the above definition of the Project, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 8.3, without formal amendment of this Agreement.

[If Project is incrementally funded, insert Sec. 2.2]

[SECTION 2.2. Incremental Nature of Project.

(a) A.I.D.'s contribution to the Project will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose, and to the mutual agreement of the Parties, at the time of a subsequent increment, to proceed.

1/ The phrase "Cooperating Country" may be used in lieu of "Grantee" throughout the Agreement.

Article 2: The Project (Continued)

(b) Within the overall Project Assistance Completion Date stated in this Agreement, A.I.D., based upon consultation with the Grantee, may specify in Project Implementation Letters appropriate time periods for the utilization of funds granted by A.I.D. under an individual increment of assistance.]

Article 3: Financing

SECTION 3.1. The Grant. To assist the Grantee to meet the costs of carrying out the Project, A.I.D., [in furtherance of the Alliance for Progress and] pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement not to exceed _____ United States ("U.S.") Dollars ($_____) ("Grant").

[In preparing Agreement, select #1, #2, or #3 following as applicable]:

(#1: The Grant may be used only to finance foreign exchange costs, as defined in Section 6.1, of goods and services required for the Project.]

[#2: The Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services required for the Project.]

[#3: The Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services required for the Project, except that, unless the parties otherwise agree in writing, Local Currency Costs financed under the Grant will not exceed the equivalent of _____ U.S. Dollars ($_____).]

SECTION 3.2. Grantee Resources for the Project.

(a) The Grantee agrees to provide or cause to be provided for the Project all funds, in addition to the Grant, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by Grantee for the Project will be not less than the equivalent of U.S. $_____, including costs borne on an "in-kind" basis.

Article 3: Financing (Continued)

SECTION 3.3. Project Assistance Completion Date.

(a) The "Project Assistance Completion Date" (PACD), which is _____, 19__, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Grant will have been performed and all goods financed under the Grant will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Grant for services performed subsequent to the PACD or for goods furnished for the project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters are to be received by A.I.D. or any bank described in Section 7.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Grantee, may at any time or times reduce the amount of the Grant by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

Article 4: Conditions Precedent to Disbursement

SECTION 4.1. First Disbursement. Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

[(a) An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;]

[(b) A statement of the name of the person holding or acting in the office of the Grantee specified in Section 8.3., and of any additional representatives, together with a specimen signature of each person specified in such statement;]

Article 4: Conditions Precedent to Disbursement (Continued)

[(c) An executed contract for engineering or other services for the Project acceptable to A.I.D. with a firm acceptable to A.I.D.]

[(d) Other conditions to be inserted as appropriate, e.g., including financial obligations of the Grantee.]

SECTION 4.2. Additional Disbursement. Prior to disbursement under the Grant, or to issuance by A.I.D. of documentation pursuant to which disbursement will be made, for any purpose other than to finance the [services] referred to in Section 4.1, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

[(a) Invitations for bids or requests for proposals for procurement of construction services or project commodities estimated to exceed $100,000, including any local currency portion, prior to their issuance;

[(b) Contracts financed under the Grant in excess of $100,000, including any local currency portion, prior to their execution by the Grantee;

[(c) The evaluation program referred to in Section 5.1.]

[(d) Additional conditions to be inserted, as appropriate, including provisions relating to:

[Procurement and installation of goods; budgetary approvals; management; organization; training; maintenance and operation; other legal and administrative actions, such as permits, licenses, privileges, easements, etc.]

SECTION 4.3. Notification. When A.I.D. has determined that the conditions precedent specified in Section 4.1 [and 4.2] have been met, it will promptly notify the Grantee.

SECTION 4.4. Terminal Dates for Conditions Precedent.

(a) If all of the conditions specified in Section 4.1 have not been met within _____ days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Grantee.

(b) If all of the conditions specified in Section 4.2 have not been met within _____ days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may cancel the then undisbursed balance of the Grant, to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to the Grantee.

Article 5: Special Covenants

SECTION 5.1. Project Evaluation. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

(a) evaluation of progress toward attainment of the objectives of the Project;

(b) identification and evaluation of problem areas of constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems; and

(d) evaluation, to the degree feasible, of the overall development impact of the Project.

[other special covenants as appropriate]

Article 6: Procurement Source

SECTION 6.1. Foreign Exchange Costs. Disbursements pursuant to Section 7.1 will be used exclusively to finance the costs of goods and services required for the Project having, with respect to goods, their source and origin, and with respect to services their nationality in the United States (Code 000 of the AID Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods or services) ("Foreign Exchange Costs"), except as AID may otherwise agree in writing, and except as provided in the Project Grant Standard Provisions Annex, Section C.1(b) with respect to marine insurance. Ocean transportation costs will be financed under the grant only on vessels under flag registry of [the United States] [the Cooperating Country, *the United States*, and *other* countries included in AID Geographic Code 941], except as AID may otherwise agree in writing.

[SECTION 6.2. Local Currency Costs. Disbursements pursuant to Section 7.2. will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as AID may otherwise agree in writing, their origin in [name of country] ("Local Currency Costs")] [To the extent provided for under this Agreement, "Local Currency Costs" may also include the provision of local currency resources required for the Project.]

Article 7: Disbursement

SECTION 7.1. Disbursement for Foreign Exchange Costs.

(a) After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under the Grant for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agree upon:

(1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such goods or services, or, (B) requests for A.I.D. to procure commodities or services in Grantee's behalf for the Project; or,

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letters of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by Grantee in connection with Letters of Commitment and Letters of Credit will be financed under the Grant unless Grantee instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Grant.

[SECTION 7.2. Disbursement for Local Currency Costs.

(a) After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under the Grant for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursements may be obtained:

(1) by acquisition by A.I.D. with U.S. Dollars by purchase [or from local currency already owned by the U.S. Government]; or

(2) by A.I.D. (A) requesting the Grantee to make available the local currency for such costs, and (B) thereafter making

Article 7: Disbursement (Continued)

available to the Grantee, through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the Grantee or its designee, an amount of U.S. Dollars equivalent to the amount of local currency made available by the Grantee, which dollars will be utilized for procurement from the United States under appropriate procedures described in Project Implementation Letters.

The U.S. dollar equivalent of the local currency made available hereunder will be, in the case of subsection (b)(1) above, the amount of U.S. dollars required by A.I.D. to obtain the local currency, and in the case of subsection (b)(2) above, an amount calculated at the rate of exchange specified in the applicable Special Letter of Credit Implementation Memorandum hereunder as of the date of the opening or amendment of the applicable Special Letter of Credit.]

SECTION 7.3. Other Forms of Disbursement. Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

SECTION 7.4. Rate of Exchange. Except as may be more specifically provided under Section 7.2, if funds provided under the Grant are introduced into [name of country] by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Grantee will make such arrangements as may be necessary so that such funds may be converted into currency of [name of country] at the highest rate of exchange which, at the time the conversion is made, is not unlawful in [name of country].

Article 8: Miscellaneous

SECTION 8.1. Investment Guaranty Project Approval. Construction work to be financed under this Agreement is agreed to be a project approved by [name of country] pursuant to the agreement between it and the United States of America on the subject of investment guaranties, and no further approval by [name of country] will be required to permit the United States to issue investment guaranties under that agreement covering a contractor's investment in that project.

Article 8.1: Miscellaneous (Continued)

SECTION 8.2. Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following addresses:

To the Grantee:

Mail Address:

Alternate address for cables:

To A.I.D.:

Mail Address:

Alternate address for cables:

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice. The Grantee, in addition, will provide the USAID Mission with a copy of each communication sent to A.I.D.

SECTION 8.3. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of _____ and A.I.D. will be represented by the individual holding or acting in the office of _____, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex 1. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 8.4. Standard Provisions Annex. A "Project Grant Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

Article 8.1: Miscellaneous (Continued)

SECTION 8.5. Language of Agreement. This Agreement is prepared in both English and [French, Spanish, etc.]. In the event of ambiguity or conflict between the two versions, the English Language version will control.]

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

[NAME OF COUNTRY OR

GRANTEE]

By:_____

Title:_____

UNITED STATES OF AMERICA

By:_____

Title:_____

ANNEX 1

Amplified Description of the Project

Project Grant Standard

Provisions Annex

Definitions: As used in this Annex, the "Agreement" refers to the Project Grant Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

Article A: Project Implementation Letters

To assist Grantee in the implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Project in Annex 1.

Article B: General Covenants

SECTION B.1. Consultation. The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations under this Agreement, the performance of any consultants, contractors, or suppliers engaged on the Project, and other matters relating to the Project.

SECTION B.2. Execution of Project. The Grantee will:

(a) carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement; and

(b) provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

Article B: General Covenants (Continued)

SECTION B.3. Utilization of Goods and Services.

(a) Any resources financed under the Grant will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project.

(b) Goods or services financed under the Grant, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use. [See HB 18.]

SECTION B.4. Taxation.

(a) This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Grant, and any property or transaction relating to such contracts and (2) any commodity procurement transaction financed under the Grant, are not exempt from identifiable taxes, tariffs, duties or other levies imposed under laws in effect in the territory of the Grantee, the Grantee will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Grant.

SECTION B.5. Reports, Records, Inspections, Audit.

The Grantee will:

(a) furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Grant. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.; such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion; and

Article B: General Covenants (Continued)

(c) afford authorized representatives of a Party the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed by such Party, and books, records, and other documents relating to the Project and the Grant.

SECTION B.6. Completeness of Information. The Grantee confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or cause A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Grant, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement;

(b) that it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the discharge of responsibilities under this Agreement.

SECTION B.7. Other Payments. Grantee affirms that no payments have been or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes, or similar payments legally established in the country of the Grantee.

SECTION B.8. Information and Marking. The Grantee will give appropriate publicity to the Grant and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed by A.I.D., as described in Project Implementation Letters.

Article C: Procurement Provisions

SECTION C.1. Special Rules.

(a) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(b) Premiums for marine insurance placed in the territory of the Grantee will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

(c) Any motor vehicles financed under the Grant will be of United States manufacture, except as A.I.D. may otherwise agree in writing.

Article C: Procurement Provisions (Continued)

(d) Transportation by air, financed under the Grant, of property or persons, will be on carriers holding United States certification, to the extent service by such carriers is available. Details on this requirement will be described in a Project Implementation Letter.

SECTION C.2. Eligibility Date. No goods or services may be financed under the Grant which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

SECTION C.3. Plans, Specifications, and Contracts. In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

(a) The Grantee will furnish to A.I.D. upon preparation,

(1) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the Grant, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise by furnished A.I.D. on preparation;

(2) such documentation will also be furnished to A.I.D., upon preparation, relating to any goods or services, which, though not financed under the Grant, are deemed by A.I.D. to be of major importance to the Project. Aspects of the Project involving matters under this subsection (a)(2) will be identified in Project Implementation Letters;

(b) Documents related to the prequalification of contractors, and to the solicitation of bids or proposals for goods and services financed under the Grant will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements;

(c) Contracts and contractors financed under the Grant for engineering and other professional services, for construction services, and for such other services, equipment or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to execution of the contract. Material modifications in such contracts will also be approved in writing by A.I.D. prior to execution; and

Article C: Procurement Provisions (Continued)

(d) Consulting firms used by the Grantee for the Project but not financed under the Grant, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the Grantee for the Project but not financed under the Grant, shall be acceptable to A.I.D.

SECTION C.4. Reasonable Price No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Grant. Such items will be produced on a fair and, to the maximum extent practicable, on a competitive basis.

SECTION C.5. Notification to Potential Suppliers. To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Grant, the Grantee will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

SECTION C.6. Shipping.

(a) Goods which are to be transported to the territory of the Grantee may not be financed under the Grant if transported either: (1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment, or (2) on an ocean vessel which A.I.D., by written notice to the Grantee has designated as ineligible; or (3) under an ocean or air charter which has not received prior A.I.D. approval.

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Grant, if such goods or persons are carried: (1) on an ocean vessel under the flag of a country not, at the time of shipment, identified under the paragraph of the Agreement entitled "Procurement Source: Foreign Exchange Costs," without prior written A.I.D. approval or on a non-U.S. flag air carrier if a U.S. flag carrier is available (in accordance with criteria which may be contained in Project Implementation Letters) without prior written A.I.D. approval; or (2) on an ocean vessel which A.I.D., by written notice to the Grantee, has designated as ineligible; or (3) under an ocean vessel or air charter which has not received prior A.I.D. approval.

(c) Unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels, (1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels, and (2) at least fifty percent (50%) of the gross freight revenue generated by

Article C: Procurement Provisions (Continued)

all shipments financed by A.I.D. and transported to the territory of the Grantee on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this sub-section must be achieved with respect to both any cargo transported from U.S. ports and any cargo transported from non-U.S. ports, computed separately.

SECTION C.7. Insurance.

(a) Marine insurance on goods financed by A.I.D. which are to be transported to the territory of the Grantee may be financed as a Foreign Exchange Cost under this Agreement provided (1) such insurance is placed at the lowest available competitive rate, and (2) claims thereunder are payable in U.S. dollars or, as A.I.D. may agree in writing, in the currency in which such goods were financed or in any freely convertible currency. If the Grantee (or government of Grantee), by statute, decree, rule, regulation, or practice discriminates with respect to A.I.D.-financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to the territory of the Grantee financed by A.I.D. hereunder will be insured against marine risks and such insurance will be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States.

(b) Except as A.I.D. may otherwise agree in writing, the Grantee will insure, or cause to be insured, goods financed under the Grant imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Grantee under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Grantee for the replacement or repair of such goods. Any such replacements will be of source and origin of countries listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

SECTION C.8. U.S. Government-Owned Excess Property. The Grantee agrees that wherever practicable, United States Government-owned excess personal property, in lieu of new items financed under the Grant, should be utilized. Funds under the Grant may be used to finance the costs of obtaining such property for the Project.

Article D: Termination; Remedies.

SECTION D.1. Termination. Either Party may terminate this Agreement by giving the other Party 30 days written notice. Termination of this Agreement will terminate any obligations of the Parties to provide financial or other resources to the Project pursuant to this Agreement, except for payment which they are committed to make pursuant to noncancellable commitments entered into with third parties prior to the termination of this Agreement. In addition, upon such termination A.I.D. may, at A.I.D.'s expense, direct that title to goods financed under the Grant be transferred to A.I.D. if the goods are from a source outside Grantee's country, are in a deliverable state and have not been offloaded in ports of entry of Grantee's country.

SECTION D.2. Refunds.

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such disbursement in U.S. Dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

(b) If the failure of Grantee to comply with any of its obligations under this Agreement has the result that goods or services financed under the Grant are not used effectively in accordance with this Agreement, A.I.D. may require the Grantee to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. Dollars to A.I.D. within sixty days after receipt of a request therefor.

(c) The right under subsection (a) or (b) to require a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

(d) (1) Any refund under subsection (a) or (b), or (2) any refund to A.I.D. from a contractor, supplier, bank or other third party with respect to goods or services financed under the Grant, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will (A) be made available first for the cost of goods and services required for the Project, to the extent justified, and (B) the remainder, if any, will be applied to reduce the amount of the Grant.

Article D: Termination; Remedies (Continued)

(e) Any interest or other earnings on Grant funds disbursed by A.I.D. to the Grantee under this Agreement prior to the authorized use of such funds for the Project will be returned to A.I.D. in U.S. Dollars by the Grantee.

SECTION D.3. Nonwaiver of Remedies. No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

SECTION D.4. Assignment. The Grantee agrees, upon request, to execute an assignment to A.I.D. of any cause of action which may accrue to the Grantee in connection with or arising out of the contractual performance or breach of performance by a party to a direct U.S. Dollar contract with A.I.D. financed in whole or in part out of funds granted by A.I.D. under this Agreement.

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A.I.D. Loan No. _____

A.I.D. Project No. _____

Loan and Grant Agreement

Dated , 19___

Between

[insert name of country] ("Cooperating Country")

And

The United States of America, acting through the Agency for International Development ("A.I.D.").

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Cooperating Country of the Project described herein, and with respect to the financing of the Project by the Parties.

Article 2: The Project

SECTION 2.1. Definition of Project. The Project, which is further described in Annex 1, will consist of _____. Annex 1, attached, amplifies the definition of the Project contained in this Section 2.1. Within the limits of the definition of the Project in this Section 2.1, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 9.3, without formal amendment of this Agreement. [Annex 1 identifies those elements of the Project for which Grant financing will be employed, and those for which Loan financing will be employed.]

/If project is incrementally funded, insert Section 2.2/

[SECTION 2.2. Incremental Nature of Project.

(a) A.I.D.'s contribution to the Project will be provided in increments, the initial one being made available in accordance with Section 3.1 of this agreement. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose, and to mutual agreement of the Parties, at the time of a subsequent increment, to proceed.

(b) Within the overall Project Assistance Completion Date stated in this Agreement, A.I.D., based upon consultation with the Cooperating Country, may specify in Project Implementation Letters appropriate time periods for the utilization of funds provided by A.I.D. under an individual increment.]

Article 3: Financing

SECTION 3.1. The Grant; The Loan. To assist the Cooperating Country to meet the costs of carrying out the project, A.I.D. pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Cooperating Country under the terms of this Agreement not to exceed _____ United States ("U.S.") Dollars ($_____) ("Grant") and to lend the Cooperating Country under the terms of this Agreement not to exceed _____ U.S. Dollars ($ _____) ("Loan"). The aggregate amount of disbursements under the Loan is referred to as "Principal." The Loan and the Grant together are referred to as the "Assistance". [In preparing Agreement, select or modify #1, #2, or #3 following as appropriate]:

[#1: The Assistance may be used only to finance foreign exchange costs, as defined in Section 7.1, of goods and services required for the Project.]

[#2: The Assistance may be used to finance foreign exchange costs, as defined in Section 7.1, and local currency costs, as defined in Section 7.2, of goods and services required for the Project.]

[#3: The Assistance may be used to finance foreign exchange costs, as defined in Section 7.1, and local currency costs, as defined in Section 7.2, of goods and services required for the Project, except that, unless the Parties otherwise agree in writing, Local Currency Costs financed under the Assistance will not exceed the equivalent of _____ U.S. Dollars ($ _____).]

[Any other pertinent instruction, e.g., that grant funds may be used only to finance foreign exchange costs, may be stated here.]

SECTION 3.2. Cooperating Country Resources for the Project.

(a) The Cooperating Country agrees to provide or cause to be provided for the Project all funds, in addition to the Assistance, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by the Cooperating Country for the Project will be not less than the equivalent of U.S. $ _____, including costs borne on an "in-kind" basis.

SECTION 3.3. Project Assistance Completion Date

(a) The "Project Assistance Completion Date" (PACD), which is _____, 19__, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Assistance will have been performed and all goods financed under the Assistance will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Assistance for services performed subsequent to the PACD or for

goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 8.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Cooperating Country, may at any time or times reduce the amount of the Assistance by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

Article 4: Loan Terms

SECTION 4.1. Interest. The Cooperating Country will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten years following date of the first disbursement of the Loan hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance will accrue from the date (as defined in Section 8.5) of each respective disbursement of the Loan, and will be payable semiannually. The first payment of interest will be due and payable no later than six (6) months after the first disbursement of the Loan, on a date to be specified by A.I.D.

SECTION 4.2. Repayment. The Cooperating Country will pay to A.I.D. the Principal within forty (40) years from the date of the first disbursement of the Loan in sixty-one (61) approximately equal semi-annual installments of Principal and interest. The first installment of Principal will be payable nine and one-half (9-1/2) years after the date on which the first interest payment is due in accordance with Section 4.1. A.I.D. will provide the Cooperating Country with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

SECTION 4.3. Application, Currency, and Place of Payment. All payments of interest and Principal hereunder will be made in U.S. Dollars and will be applied first to the payment of interest due and then to the repayment of Prinipal. Except as A.I.D. may otherwise specifify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C., 20523, U.S.A., and will be deemed made when received by the Office of Financial Management.

SECTION 4.4. Prepayment. Upon payment of all interest and any refunds then due, the Cooperating Country may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of Principal in the inverse order of their maturity.

SECTION 4.5. Renegotiation of Terms. The Cooperating Country and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects of [name of country], which enable the Cooperating Country to repay the Loan on a shorter schedule.

(b) Any request by either Party to the other to so negotiate will be made pursuant to Section 9.2, and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to Section 9.2, the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under sub-section (c). The negotiations will take place at a location mutually agreed upon by the representatives of the Parties, provided that, in the absence of mutual agreement, the negotiations will take place at the office of the Cooperating Country (title of Minister) in (name of country)

SECTION 4.6. Termination on Full Payment. Upon payment in full of the Principal and any accrued interest, this Agreement and all obligations of the Parties hereunder will terminate, except with respect to any obligations arising out of the expenditure of Grant funds.

Article 5: Conditions Precedent to Disbursement

SECTION 5.1. First Disbursement. Prior to the first disbursement of the Assistance, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Cooperating Country will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Cooperating Country and that it constitutes a valid and legally binding obligation of the Cooperating Country in accordance with all of its terms;

(b) A statement of the names of the persons holding or acting in the office of the Cooperating Country specified in Section 9.3, and a specimen signature of each person specified in such statement;

[(c) An executed contract for engineering or other services for the Project acceptable to A.I.D. with a firm acceptable to A.I.D.]

[(d) Other conditions to be inserted as appropriate, e.g., including financing obligations of the Cooperating Country.]

SECTION 5.2. Additional Disbursement. Prior to disbursement of the Assistance, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made, for any purpose other than to finance the [services] referred to in Section 5.1(c), the Cooperating Country will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

[(a) Invitations for bids on requests for proposals for procurement of construction services or project commodities estimated to exceed $100,000, including any local currency portion, prior to their issuance;

[(b) Contracts financed under the Assistance in excess of $100,000, including any local currency portion, prior to their execution by the Cooperating Country;

[(c) The evaluation program referred to in Section 6.1.]

[(d) Additional conditions to be inserted, as appropriate, including provisions relating to:

[Procurement and installation of goods; budgetary approvals; management; organization, training; maintenance and operation; other legal and administrative actions, such as permits, licences, privileges, easements, etc.]

SECTION 5.3. Notification. When A.I.D. has determined that the conditions precedent specified in Section 5.1 [and 5.2] have been met, it will promptly notify the Cooperating Country.

SECTION 5.4. Terminal Dates for Conditions Precedent.

(a) If all of the conditions specified in Section 5.1 have not been met within ____ days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this agreement by written notice to the Cooperating Country.

(b) If all of the conditions specified in Section 5.2 have not been met within ____ days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option may cancel the then undisbursed balance of the Assistance, to the extent not irrevocably committed third parties, and may terminante this Agreement by written notice to the Cooperating Country. In the event of such termination, the Cooperating Country will repay immediately the Principal then outstanding and any accrued interest; on receipt of such payments in full, this Agreement and all obligations of the Parties hereunder will terminate, except with respect to any obligations arising out of the expenditure of Grant funds.

Article 6: Special Covenants

Section 6.1. Project Evaluation The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter: (a) evaluation of progress toward attainment of the objectives of the Project; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems; and (d) evaluation, to the degree feasible, of the overall development impact of the Project.

[Other special covenants as appropriate]

Article 7: Procurement Source

Section 7.1. Foreign Exchange Costs. Disbursements pursuant to Section 8.1 will be used exclusively to finance the costs of goods and services required for the Project with respect to goods having their source and origin, and with respect to services their nationality in [countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods and services] [the United States (Code 000 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such good or services)] ("Foreign Exchange Costs"), except as A.I.D. may

otherwise agree in writing, and except as provided in the Standard Provisions Annex, Section C.1(b) with respect to marine insurance. Ocean transportation costs will be financed under the Assistance only on vessels under flag registry of (the United States) (the United States or the Cooperating Country) (the Cooperating Country and countries included in A.I.D. Geographic Code 941),except as A.I.D. may otherwise agree in writing. [The eligible source or nationality of goods or services should, where applicable, be identified separately for those goods or services financed with grant funds and those with loan funds.]

Section 7.2. Local Currency Costs. Disbursements pursuants to Section 8.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in [name of country]("Local Currency Costs:). [To the extent provided for under this Agreement, "Local Currency Costs" may also include the provision of local currency resources required for the Project.]

Article 8: Disbursements

Section 8.1 Disbursements for Foreign Exchange Costs. After satisfaction of conditions precedent, the Cooperating Country may obtain disbursement of funds under the Assistance for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of the Agreement, by such of the following

methods as may be mutually agreed upon:

(1) by submitting to A.I.D., with necessary supporting ducumentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such goods or services, or, (B) requests for A.I.D. to procure commodities or services in the Cooperating Country's behalf for the Project; or

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (A) top one or more U.S. banks, satisfactory to A.I.D. committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letters of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers, through Letters of Credit or otherwise, for such goods and services.

(C) Banking charges incurred by the Cooperating Country in connection with Letters of Committment and Letters of Credit will be financed under the Assistance unless the Cooperating Country instructs A.I.D. to the contrary. Such other changes as the Parties may agree to may also be financed under the Assistance.

[SECTION 8.2. Disbursement for Local Currency Costs. (a) After satisfaction of conditions precedent, the Cooperating Country may obtain disbursement of funds under the Assistance for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursement hereunder may be obtained:

(1) by acquisition by A.I.D. with U.S. dollars by purchase [or from local currency already owned by the U.S. Government]; or

(2) by A.I.D. (A) requesting the Cooperating Country to make available the local currency for such costs, and

(B) thereafter making available to the Cooperating country through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the Cooperating Country or its designee, an amount of U.S. Dollars equivalent to the amount of local currency made available by the Cooperating Country, which dollars will be utilized for procurement from the United States under appropriate procedures described in Project Implementation Letters.

The U.S. dollar equivalent of the local currency made available hereunder will be, in the case of subsection (b)(1) above, the amount of U.S. dollars required by A.I.D. to obtain the local currency, and in the case of subsection (b)(2) above, an amount calculated at the rate of exchange specified in the applicable Special Letter of Credit Implementation memorandum hereunder as of the date of the opening or amendment of the applicable Special Letter of Credit./

SECTION 8.3. Other Forms of Disbursement. Disbursements of the Assistance may also be made through such other means as the Parties may agree to in writing.

SECTION 8.4. Rate of Exchange. Except as may be more specifically provided under Section 8.2, if funds provided under the Assistance are introduced into /name of country/ by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Cooperating Country will make such arrangements as may be necessary so that such funds may be converted into currency of the Cooperating Country at the highest rate of exchange which, at the time the conversion is made, is not unlawful in the Cooperating Country.

SECTION 8.5. Date of Disbursement. Disbursement by A.I.D. will be deemed to occur (a) on the date on which A.I.D. makes a disbursement to the Cooperating Country or its designee, or to a bank, contractor

or supplier pursuant to a Letter of Commitment, contract, or purchase order; (b) on the date on which A.I.D. disburses to the Cooperating Country or its designee local currency acquired in accordance with Section 8.2(b)(1); or (c) if local currency is obtained in accordance with Section 8.2(b)(2), on the date on which A.I.D. opens or amends the Special Letter of Credit there referred to.

Article 9: Miscellaneous

SECTION 9.1. Investment Guaranty Project Approval. Construction work to be financed under this Agreement is agreed to be a project approved by the Cooperating Country pursuant to the agreement between it and the United States of America on the subject of investment guaranties, and no further approval by the Cooperating Country will be required to permit the United States to issue investment guaranties under that agreement covering a contractor's investment in that project.

SECTION 9.2. Communications. Any notice, request, document or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such Party at the following address:

To the Cooperating Country:

Mail Address:

Alternate address for cables:

To A.I.D.:

Mail Address:

Alternate address for cables:

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses mav be substituted for the above upon the giving of notice. The Cooperating Country, in addition, will provide the USAID Mission with a copy of each communication sent to A.I.D.

SECTION 9.3. Representatives. For all purposes relevant to this agreement, the Cooperating Country will be represented by the individual holding or acting in the office of _____ and A.I.D. will be represented by the individual holding or acting in the office of _____, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex 1.

The names of the representatives of the Cooperating Country, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 9.4. Standard Provisions Annex. A "Combined Loan and Grant Standard Provisions Annex" (Annex 2) is attached to and forms part of this agreement.

SECTION 9.5. Language of Agreement. This agreement is prepared in both English and [French, Spanish, etc.]. In the event of ambiguity or conflict between the two versions, the Engligh language version will control.]

IN WITNESS WHEREOF, the Cooperating Country and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

[NAME OF COOPERATING COUNTRY]

By: _____

Title: _____

UNITED STATES OF AMERICA

By: _____

Title: _____

Combined Loan and Grant

Standard Provisions Annex

Definitions: As used in this Annex, the "Agreement" refers o the Loan and Grant Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

Article A: Project Implementation Letters. To assist the Cooperating Country in the implementation of the Project, A.I.D., from time to time, will issue Project Implementaton Letters that will furnish additional information about matters stated in this Agreement. The Parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project

Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified descripton of the Project in Annex 1.

Article B: General Covenants

SECTION B.1. Consultation. The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end,

the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations under this Agreement, the performance of any consultants, contractors or suppliers engaged on the Project, and other matters relating to the Project.

SECTION B.2. Execution of Project. The Cooperating Country will:

(a) carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement; and

(b) provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

SECTION B.3. Utilization of Goods and Services. (a) Any resources financed under the Assistance will unless otherwise agreed in writing by A.I.D., be devoted to the Project until

the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project.

(b) Goods and services financed under the Assistance, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

SECTION B.4. Taxation. (a) This agreement and the Assistance will be free from, and the Principal and interest will be paid free from, any taxation or fees imposed under laws in effect in the territory of the Cooperating Country.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Assistance, and any property or transaction relating to such contracts and (2) any commodity procurement transaction financed under the Assistance, are not exempt from identifiable taxes, tariffs, duties or other levies imposed under laws in effects in the territory of the Cooperating Country, the Cooperating Country will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Assistance.

SECTION B.5. Reports, Records, Inspections, Audit. The Cooperating Country will:

(a) furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Assistance. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.; such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion; and

(c) afford authorized representatives of a Party the opportunity at all reasonable time to inspect the Project, the utilization of goods and services financed by such Party, and books, records and other documents relating to the Project and the Assistance.

SECTION B.6. Completeness of Information. The Cooperating Country confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Assistance, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement, and

(b) that it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the discharge of responsibilities under this Agreement.

SECTION B.7. Other Payments. The Cooperating Country affirms that no payments have been or will be received by any official of the Cooperating Country in connection with the procurement of goods or services financed under the Assistance except fees, taxes, or similar payments legally established in the territory of the Cooperating Country.

SECTION B.8. Information and Marking. The Cooperating Country will give appropriate publicity to the Assistance and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed by A.I.D., as described in Project Implementation Letters.

Article C: Procurement Provisions

SECTION C.1. Special Rules. (a) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(b) Premiums of marine insurance placed in the territory of the Cooperating Country will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

(c) Any motor vehicles financed under the Assistance will be of United States manufacture, except as A.I.D. may otherwise agree in writing.

(d) Transportation by air, financed under the Grant, of property or person, will be on carriers holding United States Certification, to the extent service by such carriers is available. Details on this requirement will be described in a Project Implementation Letter.

SECTION C.2. Eligibility Date. No goods or services may be financed under the Assistance which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

SECTION C.3. Plans, Specifications, and Contracts. In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

(a) The Cooperating Country will furnish to A.I.D. upon preparation,

(1) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the Assistance, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished A.I.D. on preparation;

(2) such documentation will also be furnished to A.I.D., upon preparation, relating to any goods or services which, though not financed under the Assistance, are deemed by A.I.D. to be of major importance to the Project. Aspects of the Project involving matters under this subsection (a)(2) will be identified in Project Implementation Letters;

(b) documents related to the prequalification of contractors, and to the solicitation of proposals for goods and services financed under the Assistance will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements;

(c) Contracts and contractors financed under the Assistance for engineering and other professional services, for construction services, and for such other services, equipment or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to execution of the contract. Material modifications in such contracts will also be approved in writing by A.I.D. prior to execution; and

(d) Consulting firms used the Cooperating Country for the Project but not financed under the Assistance, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the Cooperating Country for the Project but not financed under the Assistance shall be acceptable to A.I.D.

SECTION C.4. Reasonable Price. No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Assistance. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis.

SECTION C.5. Notification to Potential Suppliers. To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Assistance the Cooperating Country will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

Section C.6. Shipping

(a) Goods which are to be transported to the territory of the Cooperating Country may not be financed under the Assistance if transported either: (1) on an ocean vessel or aircraft under the flag of a country which is not included in AID Geographic Code 935 as in effect at the time of shipment, or (2) on an ocean vessel which AID, by written notice to the Cooperating Country, has designated as ineligible; or (3) under an ocean or air charter which has not received prior AID approval.

(b) Costs of ocean or air transportation (of goods or persons) and related delivery service may not be financed under the Assistance, if such goods or persons are carried: (1) on an ocean vessel or aircraft (the latter financed under the loan portion of the Assistance) under the flag of a country not, at the time of shipment, identified under the paragraph of the Agreement entitled "Procurement Source: Foreign Exchange Costs," without prior written AID approval; or (2) in the case of aircraft, the cost of which is financed under the grant portion of the Assistance, on a non-U.S. flag air carrier if a U.S. flag carrier is available (in accordance

with criteria which may be contained in Project Implementation Letters) without prior written A.I.D. approval; or (3) on an ocean vessel which AID, by written notice to the Cooperating Country, has designated as ineligible; or (4) under an ocean vessel or air charter which has not received prior AID approval.

(c) Unless AID determines that privately-owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels, (1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by AID which may be transported on ocean vessels will be transported on privately-owned United States-flag commercial vessels, and (2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by AID and transported to the territory of the Cooperating Country on dry cargo liners shall be paid to or for the benefit of privately-owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this sub-section must be achieved with respect to both any cargo transported from U.S. ports and any cargo transported from non-U.S. ports, computed separately.

Section C.7 Insurance.

(a) Marine insurance on goods financed by AID which are to be transported to the territory of the Cooperating Country may be financed under the Assistance as a Foreign Exchange Cost under this Amendment provided (1) such insurance is placed at the lowest available competitive rate, and (2) claims thereunder are payable in U.S. dollars or, as A.I.D. may agree in writing, in the currency in which such goods were financed or in any freely convertible currency. If the government of the Cooperating Country, by statute, decree, rule, regulation, or practice discriminates with respect to AID-financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to the territory of the Cooperating Country financed by AID hereunder will be insured against marine risks and such insurance will be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States.

(b) Except as AID may otherwise agree in writing, the Cooperating Country will insure, or cause to be insured, goods financed under the Assistance imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be

issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Cooperating Country under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Cooperating Country for the replacement or repair of such goods. Any such replacement will be of source and origin of countries listed in AID Geographic Code 935 as in effect at the time of replacement, and, except, as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

Section C.8 U.S. Government-owned Excess Property.

The Cooperating Country agrees that, wherever practicable, United States Government-owned excess personal property, in lieu of new items financed under the Assistance, should be utilized. Funds under the Assistance may be used to finance the costs of obtaining such property for the Project.

Article D: Termination; Remedies

Section D.1. Cancellation by Cooperating Country.

The Cooperating Country may, by giving AID 30 days written notice, cancel any part of the Assistance which has not been disbursed or committed for disbursement to third parties.

Section D.2. Events of Default; Acceleration.

It will be an "Event of Default" if the Cooperating Country shall have failed; (a) to pay when due any interest or installment of

principal required under this Agreement, or (b) to comply with any other provision of this Agreement, or (c) to pay when due any interest or installment of principal or other payment required under any other loan, guaranty or other agreement between the Cooperating Country or any of its agencies and AID or any of its predecessor agencies. If an Event of Default shall have occurred, then AID may give the Cooperating Country notice that all or any part of the unrepaid Principal will be due and payable sixty (60) days thereafter, and, unless such Event of Default is cured within that time;

(1) such repaid Principal and accrued interest hereunder will be due and payable immediately, and

(2) the amount of any further disbursements made pursuant to then outstanding commitments to third parties or otherwise will become due and payable as soon as made.

Section D.3 Suspension.

If at any time:

(a) An Event of Default has occurred; or

(b) An event occurs that AID determines to be an extraordinary situation that makes it improbable either that the purpose of the Assistance will be attained or that the Cooperating Country will be able to perform its obligations under this Agreement; or

(c) Any disbursement by AID would be in violation of the legislation governing AID; or

(d) The Cooperating Country shall have failed to pay when due any interest, installment of principal or other payment required under

any other loan, guaranty, or other agreement between the Cooperating Country or any of its agencies and the Government of the United States or any of its agencies;

(1) suspend or cancel outstanding commitment documents to the extent they have not been utilized through irrevocable commitments to third parties or otherwise, giving prompt notice thereof to the Cooperating Country;

(2) decline to issue additional commitment documents or to make disbursement other than under existing ones; and

(3) at AID's expense, direct that title to goods financed under the Assistance be transferred to AID if the goods are from a source outside the Cooperating Country, are in a deliverable state and have not been offloaded in ports of entry of the Cooperating Country. Any disbursement made under the Loan with respect to such transferred goods will be deducted from Principal.

Section D.4 Cancellation by AID.

If, within sixty (60) days from the date of any suspension of disbursements pursuant to Section D.3., cause or causes thereof have not

been corrected, AID may cancel any part of the Assistance that is not then disbursed or irrevocably committed to third parties.

Section D.5 Continued Effectiveness of Agreement.

Notwithstanding any cancellation, suspension of disbursement, or acceleration of repayment, the provisions of this Agreement will continue in effect until the payment in full of all Principal and accrued interest hereunder, provided, that any obligations arising out of the expenditure of Grant funds will not be extinguished by such payment of principal and interest.

Section D.6 Refunds.

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, AID, notwithstanding the availability or exercise of any other remedies provided for under this Agreement, may require the Cooperating Country to refund the amount of such disbursement in U.S. Dollars to AID within sixty (60) days after receipt of a requrest therefor.

(b) If the failure of the Cooperating Country to comply with any of its obligations under this Agreement has the result that goods or services financed under the Assistance are not used effectively in accordance with this Agreement, AID may require the Cooperating Country to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. dollars to AID within sixty (60) days after receipt of a request therefor.

(c) The right under subsection (a) or (b) to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

(d) (1) Any refund under subsection (a) or (b), or (2) any refund to AID from a contractor, supplier, bank or other third party with respect to goods or services financed under the Assistance, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will (A) be made available first for the cost of goods and services required for the Project, to the extent justified, and (B) the remainder, if any, (i) if derived from Loan funds, will be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan reduced by the amount of such remainder, and (ii) if derived from Grant funds, will be applied to reduce the amount of the Grant.

(e) Any interest or other earnings on Grant funds disbursed by AID to the Cooperating Country under this Agreement prior to the authorized use of such funds for the Project will be returned to AID in U.S. Dollars by the Cooperating Country.

Section D.7 Nonwaiver of Remedies.

No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

Section D.8 Assignment

The Cooperating Country agrees, upon request, to execute an assignment to AID of any cause of action which may accrue to the Cooperating Country in connection with or arising out of the contractual performance or breach of performance by a party to a direct U.S. Dollar contract with AID financed in whole or in part out of funds granted by AID under this Agreement.

APPENDIX 6A-4

(Short-form)

GRANT PROJECT AGREEMENT

Between the United States of America, acting through
the Agency for International Development (AID)

AND

_____
(Grantee)

1. Project Title	2. AID Project Number

The above-named parties hereby mutually agree to carry out the Project described in this Agreement in accordance with (1) the terms of this Agreement, including any annexes attached hereto, and (2) any general agreement between the two governments regarding economic or technical cooperation.

3. Amount of AID Grant	4. Grantee Contribution to the Project	5. Project Assistance Completion Date
$_____	$_____	

6. This Agreement consists of this title page and

7. For the Grantee Typed Name	8. For the Agency for International Development Typed Name
Signature	Signature
Title	Title
Date	Date

AID 1330-17 (5-79) - Cover Page

PROJECT AGREEMENT AMENDMENT

Between the United States of America, acting through
the Agency for International Development (AID)

AND

_____
(Grantee)

1. Project Title	2. AID Project Number
3. Amendment Number	4. Date of Original Agreement

5. The Project Agreement identified above is hereby amended as follows:

6. For the Grantee Typed Name	7. For the Agency for International Development Typed Name
Signature	Signature
Title	Title
Date	Date

PROJECT AGREEMENT

Annex A

PROJECT DESCRIPTION

1. Project Title	2. AID Project Number

3. This Project consists of:

4. Special Provisions

PROJECT IMPLEMENTATION LETTER (PIL)	1. PIL Number
Project Title	3. Country
4. AID Project Number	5. Date of Project Agreement

6. Documentation *(Complete continuation sheets on bond, number pages and state PIL Number.)*

7. For the Grantee Typed Name	8. For the Agency for International Development Typed Name
Signature	Signature
Title	Title
Date	Date

AID 1330-17C (5-79)

PROJECT AGREEMENT

PROAG STANDARD PROVISIONS ANNEX

A. Reference to 'this Agreement' means the original Project Agreement as modified by any revisions which have entered into effect. Reference to 'cooperating country' means the country or territory of the Grantee.

B. (1) AID will make available the amount specified in Block 3 of this Agreement, as necessary for the Project, as may be further described in Annex A.

(2) The Grantee will make available the amount specified in Block 4 of this Agreement, as necessary for the Project, as may further be described in Annex A. The Grantee will also make, or arrange to have made, additional contributions of property, services, facilities and funds required for carrying out the Project as specified in Annex A.

C. AID and the Grantee may obtain the assistance of other public and private agencies in carrying out their respective obligations under this Agreement. The two parties may agree to accept contributions of property, services, facilities and funds for purposes of this Agreement from other public and private agencies, and may agree upon the participation of any such third party in carrying out activities under this Agreement.

D. Except as otherwise specified herein or subsequently agreed by the parties, all contributions of the parties pursuant to this Agreement shall be made on or before the Project Assistance Completion Date, or amended date. A contribution of goods or services shall be considered to have been made when the services have been performed and the goods furnished as contemplated in this Agreement. Disbursement of funds may take place after final contributions have been made, but AID shall not be required to disburse funds hereunder after the expiration of nine months following the estimated Project Assistance Completion Date (Block 5 of this Agreement) or any amended Project Assistance Completion Date specified.

E.. The procurement of commodities and services to be financed in whole or in part by AID may (where so required by AID procedures) be undertaken only pursuant to Project Implementation Orders (PIOs) issued by AID.

F. Unless otherwise specified in the applicable PIO or Project Implementation Letter (PIL), the procurement of commodities imported specifically for the Project and financed with the AID contribution referred to in Block 3 of this Agreement shall be subject to the provisions of AID Regulation 1.

G. Unless otherwise agreed by the parties or otherwise specified in the applicable PIO, title to all property procured through financing by AID pursuant to Block 3 of this Agreement shall be in the Grantee, or such public or private agency as it may authorize.

H. (1) Any property furnished to either party through financing by the other party pursuant to this Agreement shall, unless otherwise agreed by the party which financed the procurement, be used effectively for the purposes of the Project in accordance with this Agreement, and upon completion of the Project, will be used so as to further the objectives sought in carrying out the Project. Either party shall offer to return to the other, or to reimburse the other for, any property which it obtains through

financing by the other party pursuant to this Agreement which is not used in accordance with the preceding sentence.

(2) Any funds provided to either party pursuant to this Agreement which are not used in accordance with this Agreement, shall be refunded to the party providing the funds.

(3) Any interest or other earnings on funds provided by AID to the Grantee under this Agreement will be returned to AID by the Grantee.

I. (1) If AID and any public or private organization furnishing commodities through AID financing for operations hereunder in the cooperating country, is, under the laws, regulations or administrative procedures of the cooperating country, liable for customs, duties and import taxes on commodities imported into the cooperating country for purposes of carrying out this Agreement, the Grantee will pay such duties and taxes unless exemption is otherwise provided by any applicable international agreement .

(2) If any personnel (other than citizens and residents of the cooperating country), whether United States Government employees, or employees of public or private organizations under contract with, or individuals under contract with AID, the Grantee or any agency authorized by the Grantee, who are present in the cooperating country to provide services which AID has agreed to furnish or finance under this Agreement, are under the laws, regulations or administrative procedures of the cooperative country, liable for income and social security taxes with respect to income which they are obligated to pay income or social security taxes to the Government of the United States of America, for property taxes on personal property intended for their own use, or for the payment of any tariff or duty upon personal or household goods brought into the cooperating country for the personal use of themselves and members of their families (not including such personal or household goods as may be sold by any such personnel in the cooperating country) or if any firm, not normally resident in the cooperating country, is liable for income, receipts, or other taxes on work financed by AID hereunder, the grantee will pay such taxes, tariff, or duty unless exemption is otherwise provided by any applicable international agreement.

J. If funds provided by AID are introduced into the cooperating country by AID or any public or private agency for purposes of carrying out obligations of AID hereunder, the Grantee will make such arrangements as may be necessary so that such funds shall be convertible into currency of the cooperating country at the highest rate which, at the time the conversion is made, is not unlawful in the cooperating country.

K. AID shall expend funds and carry on operations pursuant to this Agreement only in accordance with the applicable laws and regulations of the United States Government.

L. The two parties shall have the right at any time to observe operations carried out under this Agreement. Either party during the term of the Project and for three years after the completion of the Project shall further have the right (1) to examine any property procured through financing by that party under this Agreement, wherever such property is located, and (2) to inspect and audit any records and accounts with respect to funds provided by, or any properties and contract services procured through financing by, that party under this Agreement, wherever such records may be located and maintained. Each party, in arranging for any disposition of any property procured through financing by the other party under this Agreement, shall assure that the rights of examination, inspection and audit described in the preceding sentence are reserved to the party which did the financing.

M. AID and the Grantee shall each furnish the other with such information as may be needed to determine the nature and scope of operations under this Agreement and to evaluate the effectiveness of such operations.

N. The present Agreement shall enter into force when signed. Either party may terminate this Agreement by giving the other party thirty (30) days written notice of intention to terminate it. Termination of this Agreement shall terminate any obligations of the two parties to make contributions pursuant to Blocks 3 and 4 of this Agreement, except for payments which they are committed to make pursuant to noncancellable commitments entered into with third parties prior to the termination of the Agreement. It is expressly understood that the obligations under paragraph H relating to the use of property or funds shall remain in force after such termination. In addition, upon such termination AID may, at AID's expense, direct that title to goods financed under the Grant be transferred to AID if the goods are from a source outside the Grantee's country, are in a deliverable state and have not been offloaded in ports of entry of the Grantee's country.

O. To assist in the implementation of the Project, AID, from time to time, may issue PILs that will furnish additional information about matters stated in this Agreement. The parties may also use jointly agreed-upon PILs to confirm and record their mutual understanding on aspects of the implementation of this Agreement.

P. The Grantee agrees, upon request, to execute an assignment to AID of any cause of action which may accrue to the Grantee in connection with or arising out of the contractual performance or breach of performance by a party to a direct U.S. Dollar contract with AID financed in whole or in part out of funds granted by AID under this Agreement.

APPENDIX 6B

GUIDANCE NOTES FOR PREPARING MODEL PROJECT AGREEMENTS

This guidance is keyed to the model Project Loan Agreement and its twin Project Grant Agreement in Appendices 6A-1 and 6A-2 to Chapter 6, and their standard provisions annexes. Since the modules are almost completely parallel, only one section reference is given; where the modules diverge, this is indicated, with the grant numbering preceding.

In the model agreement formats, square brackets [ ] are used to indicate that a drafting decision of some sort (e.g., include, exclude, or modify) is needed. It should be noted that it has not been felt necessary to bracket all such provisions; e.g., additional conditions precedent and the investment guaranty clause are not so bracketed.

Notes

Page 1. "A.I.D. Project No." is the seven-digit number used for the project since the PID stage (HB 3, Appendix 5A).

Article 1: This introductory clause has technical functions (e.g., identifying the "Parties") but also the more important one of stating that it is the Borrower/Grantee ("B/G" in these notes) which is undertaking -- i.e., is fundamentally responsible for -- the Project.

(If it is wished to identify the B/G throughout the Agreement in some other appropriate fashion rather than by "Borrower" or "Grantee," this may be done; e.g., Borrower may prefer to be identified as "Government" or by its full name, etc.)

Sec. 2.1: Insert here the basic definition of the Project contained in the authorization; the definition in the authorization may need to be, and can be, amplified, based on the fuller description in the Project Paper. The resulting Project definition in this Section 2.1 will be a relatively succinct and broadly stated overview of the Project, as compared with the more detailed elaboration of this definition in Annex 1, Appendix 6C-1.

It must be borne in mind that the description in Sec. 2.1 is not subject to change without formal amendment of the Agreement (and if necessary of the authorization).

The Sec. 2.1 description may include a statement, taken from or compatible with the Project Paper, of the overall goal of the Project. The purpose or purposes of the Project may also be addressed here, and it is likely that a generalized statement of the nature of anticipated outputs (not necessarily quantified in this section) will be appropriate. It is unlikely that inputs will be addressed here in detail.

The reason for dividing the description in two parts is to allow for discrimination, in recording the understandings of the Parties, between the basic essentials of the Project, which it is not expected will be

changed, and the more detailed understandings and expectations of the Parties. As to the latter, while change is not necessarily to be expected, experience and developments in the course of Project implementation may demonstrate the need for refinement or revision, though not to the extent of approaching fundamental changes in the Project. For fundamental changes, amendment of the Agreement, and if necessary consent of the authorizing official, will be required.

Annex 1 (App 6C-1) may utilize the "Description of the Project from the Project Paper (PP) (See Chap. 3) but, in drafting and negotiating an Agreement, it is not expected that its Annex 1 will often be a word-for-word transposition of the PP description --even though it is also true that fundamental or major departures from the contents of the PP will not take place without the approval of the authorizing official. The needs to update data, and to refine it technically (e.g., by removing certain quantification) must be borne in mind when drafting an Agreement description, as compared with a PP description. To illustrate the removal of certain quantification: a PP may speak of 48 worker-months of technical services. In the Agreement's description, it may be preferred to identify the technical services without quantification, or at most to say "approximately 48 worker-months." Particularly where A.I.D. inputs are described, such adjustments may reduce any B/G misapprehension that; e.g., A.I.D. is committed to helping with <u>no less than</u> 48 worker-months.

(However, where the quantification is of targets or of evaluation criteria, more precise quantification may be appropriate.)

Again, in the Agreement description it may be preferred to consolidate items from a given PP description, to qualify them differently, to elide, etc.

The aim of an Agreement's detailed description is full understanding between the Parties as to what is to be done, in what manner and by whom, when, and at whose cost.

The length of description needed, in Sec. 2.1 and Annex 1, Appendix 6C-1 will vary: for, e.g., a road project, the description may be simple; for a rural health system with a number of components, more detail is likely to be needed.

Even if a more detailed "Implementation Plan," or additional financial planning data, are to be submitted as Conditions Precedent -- which can be done -- outlines of the same in Annex 1 help assure joint understanding.

Thus, Annex 1 (App 6C-1) can outline the Project, explaining what is to be done in what sequence, by what modes, by what agencies, under what conditions, utilizing what criteria, supported by what undertakings of the B/G, and contemplating what significant organizational or institutional arrangements. If sub-project or sub-activity review and approval is needed, important operating procedures for the same should be stated.

Fixed amount reimbursement (FAR) procedures, if used, should be outlined (see Ch. 3, App. 30).

If there are significant financial mechanisms - e.g., a fund - to be established, Annex 1 (Appendix 6C-1) should outline how it is to be established, by whom administered, giving what approvals, etc.; also, if appropriate, what restrictions pertain to the mechanism's activity - eligibility criteria for subactivities, etc.

Targets, identified as such, may be identified, including the planned End of Project Status (EOPS).

The description should observe expressly the distinction between targets (dates, inputs, outputs, etc.) and commitments or promises. (Failure to meet a target stated in Annex 1 may become a violation of the Agreement indirectly, however, because of the B/G's covenant in Sec.B.2(a) to carry out the Project diligently, etc.) Accordingly, promises of either side which must be independently solid should be located in the covenants or financial undertakings articles.

Thus, Annex 1 may describe expected or planned future situations in such terms as: "The Parties anticipate...[or intend] that...;" or "having an estimated number of..."etc. A statement, even though in the Project description, that B/G or that A.I.D. will do a certain specific thing--e.g., contribute 38 worker-months or services, etc.--will be generally regarded as a promise. Consequently, commitments should not be made here that are not intended.

Annex 1 (Appendix 6C-1) is likely to indicate the financial procedures for the respective Project elements, (e.g., one element will use FAR procedures, one element letters of commitment and of credit, one element AID-arranged participant training, etc.).

A financial plan will be included in Annex 1; it can be identified as Attachment 1 to Annex 1. It must be clear that the financial plan is subject to change by the representatives named in Sec. 8.3/9.3, without formal amendment of the Agreement.

See Appendix 6C-1 for additional guidance on the financial plan and the instructions on the reverse side of the illustrative plan at Appendix 6C, Exhibit 1 and 2.

The financial plan will reflect the sources and uses of all funds needed to carry out the Project, broken down by project input. The financial plan will indicate the amounts budgeted for the respective project inputs from AID, the B/G and any other sources, such as participating communities or sub-borrowers. The financial plan may also indicate the breakdown between the dollar and local currency financing contemplated.

The organization of this financial planning data by "project inputs" is important. Project inputs, which were earlier known as Project Specific Inputs, are the sub-groupings of related activities under a project which serves to characterize it with a little more detail than is afforded by the unitary concept of the project. These sub-groupings are used in the project review process, and in the presentation to Congress of data on the project. (For grants, they replace the "Standardized Cost Components.") There is not a standard nomenclature for project inputs; they are identified in the course of project development. They will form one of the bases of the project accounting system under development.

An illustrative financial plan is shown in Appendix 6C, Exhibits 1 and 2. In the case of incrementally funded projects, the sources of financing should be further broken down into "Cumulative Obligations" and "Future Years anticipated" columns as shown in the Attachment.

It is important to be clear on the difference between the firm promises made in Article 3 of the Agreement as to funds to be provided [including the open-ended B/G commitment of Sec. 3.2(a)], and the financial plan.

The financial plan is principally intended, as the name "plan" suggests, to reflect the intentions of the parties as of the time of its preparation. As far as the components of its totals are

concerned (the totals being firm by virtue of Article 3), these guidance notes do not require that the plan at the level of its components be stated as a binding constraint upon the parties, so that they may not without mutual agreement switch funds between components (i.e., between project inputs). However, if it is wished to impose such an internal constraint, (e.g., no switches between project inputs without mutual agreement, or not over 15%, etc.), this may be done.

Normally the flexibility contemplated with regard to shifting funds between inputs should be specified. Also, limits on the extent of A.I.D. local cost financing may have been established, and will need to be reflected. In, e.g., the case of sector programs or activities composed of several diverse components, limits on reallocating funds among components may be established in the authorization or as a result of the project review process. Where such limits on switching are deemed appropriate, a formulation for the limitation should be developed for the project which takes into account the needs of the project and the size of the amounts, relative to each other, allocated to the inputs.

The illustrative plan at Appendix 6C, Exhibits 1 and 2, may be adapted or revised as desired, but the data should be presented in tabular form unless the course of negotiations with the B/G indicates that the same data should be presented in narrative form.

The details shown on the financial plan, like the details in other parts of the description, are to be viewed as not without flexibility. In principle, failure of a Party to adhere to these details will not be regarded as an event of default under the Agreement, unless constituting a violation of a more specific covenant or other undertaking, or of a more general promise such as B/G's covenant to diligently carry out the Project. Nevertheless, these financial details are aspects of the undertanding between the Parties, and have direct significance as such.

Significant changes, within the total stated in Sec. 3.1, in the amounts of A.I.D. financing allocated to each of the Project inputs should be documented by mutual agreement in writing, as should significant changes among B/G inputs -- which must not reduce the B/G total below the amount stated in Sec. 3.2. This bringing up to date of the financial plan need not necessarily occur in advance of the issuance of; e.g., disbursement documentation which exceeds a planned input (within, for A.I.D., its overall total), unless the Agreement so requires. The criteria for determining what is a significant change should be based on the needs of each project.

Revisions of the financial plan can be executed only by representatives of the parties designated in Secs. 8.3/9.3 of the Agreement - not by their delegates - since the plan is part of Annex 1 to the Agreement.

If the project's budget has items for "contingency" and "inflation" these should be shown as such on the financial table, or lumped together under "unallocated." Their allocation to more specific costs, during implementation, would not be a reason for revising the agreed budget.

In the case of Projects funded incrementally by A.I.D., Article 3 would not commit full funding; see Grant Sec. 2.2. References to possible future funding by A.I.D. need to be appropriately hedged: discussion of language with which to describe possible future A.I.D. funds (e.g., "subject to availability of funds and to A.I.D. approval at that time") is under Sec. 2.2.

In defining the "Project," it should be borne in mind that for A.I.D.'s input purposes the Project is complete when the status postulated as existing at the Project Assistance Completion Date is achieved. (Post-PACD evaluation, if funded by A.I.D. under the Agreement, will be treated as an exception under the "agree otherwise" language of the PACD provision, and will not require later establishment of the PACD.) It will not infrequently be the case that what the B/G properly regards as "its project" will extend later than the last A.I.D. input, i.e., beyond the PACD. Indeed, the Agreement may impose direct duties on the B/G; e.g., with respect to further post-PACD inputs (apart from the routine covenant to operate, maintain, etc.). In such cases, the B/G undertaking can be referred to as; e.g., "the Activity," to separate it from the A.I.D.-assisted "Project" which is limited in time by the PACD.

Sec. 2.2 (Grants): In the case of a project which is incrementally funded by A.I.D. (that is, where A.I.D. funding for an initial period is provided first, with the contemplation of a further segment or segments of A.I.D. funding to be provided in a subsequent year or years), this Section is employed to define the relationships between the parties and the limited nature of A.I.D.'s undertaking with respect to the project. "The Project" in an incrementally funded project is all of the multiyear span for which A.I.D. approval has been given, not just that for which funds are obligated: "Project" in the design sense, not the funding sense.

For the project to conform to its design, the PACD must, of course, be at the end of the designed period.

Experience may indicate that this Sec 2.2 can be improved upon. A key part of the Section is in 2.2(a), which is designed to preclude the unauthorized commitment of future year A.I.D. funds by stating that future increments are subject, not only to availability of funds to A.I.D. for the purpose, but to mutual agreement of the parties to proceed.

NSC 1550, reflected in HB 2, Part I, Ch. 5, bars commitments not duly approved. (A commitment is defined as a communication between a responsible U.S. official and a responsible foreign official which could reasonably be interpreted as a promise that the U.S. will provide a foreign government with funds, goods or services.) Commitments of future year funds which the Executive Branch has not yet formally determined to request from the Congress require clearance of the Director, OMB. If the Executive Branch has formally determined to ask Congress for future year funds, approval from the A.I.D. Administrator of the commitment is necessary, etc.

Stating that future assistance will be forthcoming "subject to availability of funds" does not cure the commitment problem - it merely avoids the anti-deficiency act.

Consequently, references to anticipated future A.I.D. funds (which will not be made unless the authorizing official has given program approval therefor) should state that such funds are; e.g., "subject to availability of funds to A.I.D. for this purpose and to the mutual agreement of the Parties, at the time, to proceed." It may be indicated in negotiations that A.I.D. approval at that time would take into account whether satisfactory progress was being made.

The same considerations need to be observed, with respect to future funds, in financial plans or other jointly agreed or approved documents.

Sec. 2.2(c) provides a basis for establishing cutoff dates on the use of funds shorter than the PACD. The PACD will be at the end of the last approved increment - e.g., up to three years or longer (See HB 3, Ch. 8) whereas the first increment may be, e.g., one year's funds. In effect, Sec 2.2(c) permits imposing the requirement that the first year's money be spent the first year, and not spread over three or more years.

Sec. 3.1: Material in square brackets related to the Alliance for Progress, is, of course, for such use exclusively, where appropriate. After "pursuant to...Act of 1961, as amended", there may be added, if desired, reference to the economic assistance bilateral.

One of the three "foreign exchange local currency cost" alternatives listed here will be selected based on the authorization's mandate. E.g., if the authorization permits FX plus local currency costs without restriction, alternative #2 will be chosen.

Sec 3.2 Where under FAA Sec 110(a) and HB 3, App. 2.D, a country contribution of not less than 25% of the Project cost is required, this figure will be expected to demonstrate compliance. (This may not always be the case, however, for a variety of reasons, including possible constraints on country commitment of future year funds, as to which there may be letter assurances, etc.). Also, while the statutory requirement relates to most uses of development funds, it does not apply to every use. The 1975 legislation permits a waiver of the 25% requirement, too, for "relatively least developed" countries. And in addition, the 25% may be calculated on the basis of "program" or "activities," as well as by projects. See HB-3, App. 2D.

For incrementally funded projects, if the B/G, as it may, commits in increments also, the B/G contribution indicated in Sec. 3.2(b) would not be expected to be 25% of the total that A.I.D.

anticipates putting in over the life of the project. Indeed, since the timing of A.I.D. and of the B/G inputs need not be synchronous e.g., host country costs may be needed earlier or later-- as of any increment but the last, Sec 3.2(b) might not show the expected ratio. The financial plan would, however.

It has been preferred not to state explicitly in Sec 3.2 that "the B/G will contribute at least 25%" of Project costs, in case this came to be viewed as indicating a maximum expected country contribution.

Sec 3.3, the Project Assistance Completion Date(PACD) -- See also HB-3, Ch. 1 at App. B -- is intended to reflect an emphasis on when the A.I.D. assistance is actually completed -- work performed and goods furnished-- rather than judging when a project is finished by when the last disbursement is made, which is often considerably later.

In Sec. 3.3(a) the PACD is explicitly stated to be an estimate. Once established, it has consequences by virtue of sub-sections (b) and (c).

Under (b), control is exercised at the level of implementing documents, by granting or withholding issuance or approval of implementing documents which would authorize disbursements. The documents referred to are both (1) those which authorize disbursements in an anticipatory fashion, such as approval of a contract with an internal terminal date, or a Letter of Commitment with Letters of Credit with internal terminal dates; and (2) those which authorize disbursements on an after-the-fact basis, as a request for reimbursement may. (Note that these two illustrations may overlap, in that implementation documentation may give advance approval for the financing of work for which reimbursement will be later requested.) Sub-section (b) is intended to reach both forward approvals and after-the fact approvals, and to give A.I.D. the option to issue or approve either.

In effect, Sec. 3.3 is policed through implementation documentation. A feature of A.I.D. implementation is that such documentation may be issued not only to the B/G, but also directly to suppliers, as in the case of a U.S. supplier of commodities which will be shipped to the cooperating country for the project. The supplier is frequently paid on shipment from port -- at which time one will not necessarily know that the goods will be at the project site by the PACD.

This has two consequences: (1) the section refers to goods "furnished for the Project, as contemplated in this Agreement;" it does not use the term delivered." ("Delivery" in such a case would often be interpreted as delivery on ship so that the supplier would get paid; this would detract from the focus on the goods being in the project by the PACD.) "Furnish" is intended to encompass both "delivery" in such a supplier's terms and delivery in the sense important to timely project completion. Consequently, (2) the discrimination between which kinds of implementation documentation at which points in time may be issued or approved by A.I.D. under sub-section (b) necessarily involves the judgment of the personnel approving the implementation documentation.

For instance, in the case of payment for goods shipped by sea from the U.S. to a distant country, A.I.D. should not (without recourse to the exception procedures (e.g., "agree otherwise") permissible under the section, and relevant guidance as to their exercise), issue documentation which would authorize disbursement to a remote supplier of goods where the goods clearly cannot reach the Project within the PACD. However, once an affirmative judgment is made that to issue such documentation is proper, the internal terminal date in that documentation will govern disbursement under it, regardless of whether the goods eventually reach the Project within the PACD.

Through all this, of course, the PACD-plus-nine-months period for request for disbursement will need to be observed.

Thus, it may be said that under the PACD provision, among the timing decisions critical to meeting the PACD are those which, e.g., establish the terminal date under a letter of credit sufficiently in advance of the PACD.

Section 3.3(a) permits the parties to agree to a different PACD than that stated in the Agreement, if the parties decide upon a different time frame for all the A.I.D. assistance.

Section 3.3(b) permits A.I.D. to "agree otherwise" to the issuance or approval of documentation which would authorize disbursement, for items performed or furnished after the PACD. Essentially, this permits limited extensions for goods or services which would not otherwise meet the PACD test.

Such an extension could be granted for; e.g., one supplier, while maintaining the date for all else. The extension is limited by (perhaps among other factors) Sec. 3.3(c).

Section 3.3(c) establishes a nine-month period after the PACD without which requests for disbursement must be received by A.I.D. (or the Letter of Commitment bank, in the case of requests under a bank Letter of Credit). A shorter

period may be established, if desired, for a project in which the payment procedures are simple, and vice versa. In contrast to Sec. 3.3(b), this period is not intended to be adjusted for individual items, but rather by (1) agreement with the B/G to change the PACD, or (2) A.I.D. agreement to a longer period for all who will be requesting disbursements.

Sec. 3.3 may be modified for a Fixed Amount Reimbursement (FAR) context. Loan or grant Sec. 3.3(a) and (b) may be revised as follows, with no change in 3.3(c):

"(a) The Project Assistance Completion Date (PACD), which is _____, 19__, or such other date as the Parties agree to in writing, is the date by which the Parties estimate that all portions of the Project financed jointly by them on a Fixed Amount Reimbursement (FAR) basis will have been completed, that all services financed under the [Loan/Grant] other than on a FAR basis will have been performed, and that all goods financed under the [Loan/Grant] other than on a FAR basis will have been furnished for the Project, as contemplated in this Agreement.

"(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the [Loan/Grant] for FAR portions of the Project completed subsequent to the PACD, or, in the case of portions of the Project financed under the [Loan/Grant] other than on a FAR basis, for services performed subsequent to the PACD or goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD."

An Agreement using the above will need, in other appropriate provisions, to define what is meant in the references to FAR and FAR portions. Within the principles reflected above, for FAR agreements, Missions with advice of Agency legal staff may need to, and may, adjust above language to fit the circumstances. E.g., the above PACD provision covers FAR, non-FAR goods, and non-FAR services; if financing of goods on a non-FAR basis is not contemplated, this may be revised to ". . . any goods which may be financed . . . other than on a FAR basis . . ." etc. (Formulation with "any" and "may" leaves open possible later non-FAR financing of, e.g., goods, even though not initially intended, and thus might be preferable to complete omission of reference to goods.)

Implementation documents, such as contracts or approvals of elements of FAR work, can embody, in effect, their own "terminal dates," which can be shorter than, but must be compatible with, the PACD. Differentiation of dates between FAR and non-FAR elements can be achieved in this way.

If, e.g., to accommodate retention of funds during a warranty or guarantee, it is necessary to make the post-PACD period for requesting disbursements longer than 9 months, this may be done when the Agreement is drafted or by PIL subsequently.

Warranty periods or testing periods, after a unit is operational, will not require the later establishment of the PACD; however, a training period called for by the project design must be within the PACD. Likewise, the PACD should be established to include delivery of necessary spare parts.

The financing by A.I.D. of services by an A/E firm in connection with disputes or claims arising out of construction or supply contracts would not be expected to take place within the PACD, since the dispute or claim would not normally be planned for. The financing of such services would be accomplished by the extension of the "PACD - plus nine months" period, assuming that the underlying construction or supply has been accomplished within the PACD.

It is contemplated that standardized language will be prepared for a Project Implementation Letter (PIL) which will amplify for the parties the nature and effects of the PACD.

Loan Secs. 4.1, 4.2: These are the present basic development lending interest and repayment provisions. Other interest or repayment terms will be inserted, of course, if required by the authorization.

Loan Sec. 4.5: This renegotation clause was approved by A/AID after a review of the subject in depth. Proposed changes from this langauge would be reviewed at that level.

For Alliance loans, Sec. 4.5(a) may commence: "In the light of the undertakings of the United States of America and of the other signatories of the Act of Bogota and the Charter of Punta del Este to forge an Alliance for Progress," and conclude", taking into consideration the relative capital requirements of [name of country] and of the other signatories of the Act of Bogota and the Charter of Punta del Este."

Article 4/5: Conditions precedent will, of course, need to be adapted to fit the needs of the particular project. Conditions precedent help ensure that the expenditure of funds will occur in a way which will maximize the achievement of the purpose of the project. The listing here is illustrative, and oriented toward a capital project. A technical assistance project would need different and perhaps fewer conditions precedent (CP's). In both loans and grants, CP's help assure that funds will not be spent until they are well spent. (In loans, procedural CP's, such as a legal opinion and identification of authorized representatives, which are always required, have the additional function of helping to assure that the funds will be repaid, by tending to preclude

later arguments about legality or authority.) Nevertheless, since the country makes commitments - for project funding and otherwise - even in a grant agreement, it is important to be sure that the person and entity representing the host government has the authority to bind the government to the commitments made in the Agreement, and to fulfill them. CP's such as a legal opinion help assure this. However, judgments must be made: except in loans -- where the legal opinion has the added function of helping to assure repayment -- it will probably be the exceptional Project rather than the small or routine one where the CP of a legal opinion is judged necessary.

If the legal opinion can be ready by the time of Agreement execution, problems - such as authority to commit the B/G to action - can be resolved early. Reference in the CP sections to "documentation pursuant to which disbursement will be made" is intended to include the range of procedures A.I.D. has to authorize disbursements: Letters of Commitment, Letters of Credit, Participating Agency Service Agreement, direct contracts, orders for excess property, etc., including items now handled by PIO's. If desired, this may be made explicit in the Agreement, as by saying ". . . documentation (such as Letters of Commitment) pursuant to which disbursement will be made . . .," etc.

Loan Sections 5.1 and 5.2 (Grant Secs. 4.1 and 4.2) are to be combined when appropriate, as when separate engineering and construction phasing of the project is not involved.

In Sec. 4 or 5.1(a), where the position of the appropriate legal officer is known, this should be stated, e.g., "an opinion of the Attorney General of" the B/G. Sec. 4 or 5.1(d) refers, in "financial obligations" or B/G, to, e.g., budget allocations.

In Sec. 4 or 5.2(c), the CP on the evaluation program will be regarded as a standard CP, unless covered elsewhere, e.g., in sufficient detail in the covenant section. It may be preferred to locate this CP within the initial CP's - as will be the case, of course, if there is not the second tier of CP's.

CP's mentioning plans and specifications, etc., which will be reviewed and approved by A.I.D. should provide appropriate cross-reference to the review/approval Section C.3.

Loan Section 5.2(a)(b) and Grant Section 4.2(a) and (b) must reflect the present AID review and approval policy for country contracts in excess of $100,000, including any local currency portion, as well as for invitations for bids and requests for proposals for procurement of construction services or project

commodities estimated to exceed $100,000, including any local currency portion. HB 1 Supp. B, section 12C3g states this policy and also contains other elements of the contract process which may be the subject of conditions precedent or further discussion in the amplified description or PILs.

Article 5/6: This Article will include any special covenants necessary, such as evaluation.

Where to do so is appropriate and feasible, there may be built into the covenants suitable time limitations on their duration: of the Project, of facilities, of a sub-loan, of the loan, or of other standards may be employed. This may eliminate questions that sometimes arise as to the duration of a covenant that on its face appears to run forever. (The existence of a covenant may imply a continuing U.S. duty to monitor its compliance.)

However, since any such time limits on covenants cut both ways, they should be used only when clearly indicated.

Sec. 5.1/6.1: This evaluation section may need modification to accord with the facts of a particular project. If the evaluation program itself can be stated and agreed upon in this covenant, this should be done; otherwise, submission of an acceptable evaluation program (which should have been in draft at the PP stage) will normally be a condition precedent to disbursement. Alternatively, reference to an already submitted, jointly agreed plan may be made. Or, if the evaluation program is stated in the detailed description (Annex 1), this covenant can refer to it, and constitute the promise to carry it out.

In this section, "objectives" denotes a generalized understanding of what the Parties have been trying to do; this should not necessarily be equated with the goal/purpose analysis of the logical framework.

Article 6/7 : Code 941 is the normal source or nationality designated for loans, but if the authorization set other limits (such as Code 000-U.S.), this must, of course, be reflected.

The U.S.(Code 000) is the normal source or nationality for grants except for grants to countries which are determined to be "relatively least developed"(RLDC's). The normal source/nationality for grants to RLDC's is Code 941. But if the authorization sets other limits, this must, again, be reflected.

With regard to ocean transportation, when Code 000(U.S.) is authorized for procurement, A.I.D. will finance ocean transportation costs on only U.S. flag vessels. An exception to this policy is made when Code 000 is made the authorized source for particular commodities although Code 941 would otherwise have been the normally authorized source. In such cases, A.I.D. will finance ocean transportation costs on U.S. and Cooperating Country flag vessels. Under certain circumstances Code 941 and the Cooperating Country may be designated the authorized source for ocean transportation financed by A.I.D. General A.I.D. policy on ocean transportation is contained in HB-1B, Chapter 7. SER/COM should be consulted as to whether or not a determination has been or can be made to use Code 941 and the Cooperating Country shipping.

If the Agreement will finance commodities that may be subject to special source or related rules (Agricultural commodities?) provision should be made for this. Details would, in any event, be provided in PIL s.

In connection with local currency costs, Sec 6.2/7.2 reserves to A.I.D. the right to "agree otherwise" as to local origin. While the Project Implementation Letter can define "shelf rules," etc., that may be applicable, the "agree otherwise" clause would permit a duly authorized waiver or elimination of the origin requirement. E.g., if Fixed Amount Reimbursement (FAR) financing is used this may permit the origin question to be handled more readily. Section 6.2/7.2 will be eliminated if the authorization does not permit local cost financing.

Since the rules for FAR on source and other issues are currently in policy formulation, an attempt is not made to provide

further guidance here. Extant policy guidance is found in HB-3, App. 3J (based on AIDTO Circular A-513, July 17,1974).

The bracketed language in Sec 6.2/7.2: "[To the extent provided for under this Agreement, "Local Currency Costs" may also include the provision of local currency resources required for tne Project.]" is intended to be used in all FAR cases and in those other cases where local currency resources are being provided which are not identified with specific local goods or services, such as projects with agricultural credit schemes, etc.

Article 7/8: Matching Article 6/7 on procurement source which is linked to either Foreign Exchange or Local Currency Costs, this article (like current loans) splits disbursements into "Foreign Exchange" and "Local Currency" costs. The latter will be omitted if not authorized, of course. Methods of disbursement which it is known will not be used should be omitted from either, also. Sec 7.3/8.3 "Other Forms of Disbursement," should not be omitted.

In Sec 7.2/8.2(a), requests to "finance" such costs is intended to comprehend both advance and reimbursement mechanisms; the Agreement may be more specific if wished.

In Sec. 7.2/8.2(b)(1), bracketed language is omitted if there are not available U.S. holdings of local currency. Note that there may be SLC's which can be continued to be used which do not precisely conform to this Section.

The "Rate of Exchange" Section 7.4/8.4 is based on ProAg standard provision L. The "except" clause will not be used if there is no SLC in Sec. 7.2/8.2, of course. Omit the section if Agreement is for Foreign Exchange Costs only. (The formulation of "highest rate . . . which . . . is not unlawful" is used rather than "highest legal rate" because the latter formulation in some countries may be equated with "highest official rate." The "official rate,"in such country, may be lower than, e.g., prevailing and lawful business rate:)

If instead of a special letter of credit, direct reimbursement by A.I.D. to the B/G of local currency costs is approved, Sec. 7.2/8.2(b)(2) may read: "(2) by A.I.D. requesting the B/G to make available the local currency for such costs, and thereafter reimbursing an amount of U.S. dollars equal to the amount of local currency made available by the B/G."

In Loan Sec. 8.5, "Date of Disbursement," Subsections (a), (b), or (c) can be tailored to the loan - omit any inapplicable.

Sec. 8.1/9.1: The "Investment Guaranty" clause will be used only when appropriate.

Sec. 8.2/9.2, last sentence: If address of USAID Mission is used above, this sentence will be deleted. (This may be adapted, of course, to local needs -- an obvious case being if the local A.I.D. office is not a Mission.)

Sec. 8.3/9.3: The representative for A.I.D. would normally be the Mission Director or equivalent officer. The B/G may prefer to designate as its representative an official with direct interest in and responsibility for the project (e.g., in the ministry of agriculture), rather than a more general responsibility (e.g., in the ministry of finance).

Sec. 8.5/9.5: This "governing language" provision, which establishes English as the controlling text, is inserted whenever the Agreement will be executed in another language as well as English. If a translation is furnished to the other party as a courtesy, but is not executed, this clause is not appropriate in the Agreement, although it may be desirable to make a notation on the courtesy text to the effect that the executed English-language Agreement is definitive for purposes of interpretation.

APPENDIX 6C

Guidance Notes for Preparing

Standard Provisions Annexes

Sec. B.3(b): The former loan provision that goods of Bloc origin could not be utilized on the Project, even if not financed by A.I.D., is omitted. In the event - which experience tends to indicate would be unlikely - that conspicuous display of any such goods in an A.I.D. project is attempted, other remedies, in or out of the Agreement, are available.

Sec. B.4: This tax clause could be more precise, but would then become less suitable for use as a worldwide model, due to local variations in tax structure, program nature, etc. Thus specificity is deferred to the Project Implementation Letter (PIL) stage.

However, this language derives from days when A.I.D. did less local cost financing, and it will be important to specify in the PIL that a full tax exemption for local contractors, etc., is not contemplated.

Language (possibly in agreement and certainly in PIL) will need to be tailored to the local situation and to A.I.D. policy. Proposed language for the PIL on this point is: "It is the intention that taxes that bear directly on the project, such as sales taxes or customs duties on project commodities, gross receipts taxes on a contractor attributable to the project work, etc., will be exempted or reimbursed for all including local contractor and local employees; but that taxes that bear only indirectly on the project, such as employees or corporate net income tax, will not be exempted for local employees or firms, and will be exempted for foreign based firms or employees."

Sec. B.5(a): The right to call for "information and reports" is expected to cover, among other matters, the "completion report" now called for by ProAg terms. The PIL would specify this, as well as requesting a report on any implementation problem. Information or reports relating to the developmental impact of a project could be called for under Sec. B.5(a).

Sec. B.5(b): This 3-year record retention period replaces the former 5-year period in loans. Three years is the period called for by statute for direct, U.S. Government negotiated contracts (41 USG 254(c)); is the A.I.D. Procurement Regulation (AIDPR) standard; is in existing ProAg forms; and is the period of time for which the IRS can call on a typical U.S. taxpayer to supply income tax records.

Sec. B.5(c): "Authorized representatives of a Party," i.e., of the U.S., is intended to include representatives of the Inspector General of Foreign Assistance and of the U.S. General Accounting Office.

Sec. B.6(a) and (b): This is a descendent of the existing loan (but not grant) "disclosure" clause, with slightly milder language but the same substance.

Sec. B.7: The existing loan (but not grant) clause on "Commissions, Fees and Other Payments" has been revised to this.

Sec. C.2: If authorized eligibility date is other than date of Agreement, this must of course be reflected; this may be specified in Annex 1 or in the body of the Agreement itself.

Sec C.3: Current A.I.D. policy is contained in HB-1, Supplement B, Ch. 12. Also see HB-11.

Sec C.3(d): On consulting firms, etc. may be appropriately modified where other international assistance is involved.

Sec. C.4: In this ":reasonable price" clause, the phrase "competitive basis" is not intended to call for competitive bidding (IFB's) in all cases, but leaves room for, e.g., negotiated procurement (RFP's), or sole source negotiated procurement, where the circumstances warrant and other relevant HB guidance permits.

Further definition of how "reasonable price" is determined will need to be provided in Project Implementation Letters.

It should be noted that if the Project consists largely of the bulk import of a commodity (or commodities) then the statutory price test of Sec. 604(b) of the Foreign Assistance Act may be applicable.

For Fixed Amount Reimbursement portions of a project, of course, the reasonable price test is considered to be satisfied when the specifications and overall price are agreed upon.

Sec C.8: The first sentence of the "excess property" embodies the language of FAA Sec. 608.

Sec. D.2/D.6: The refund provisions use a 3-year rather than 5-year period, matching the books and records provision discussed above (Sec. B.5).

In the loan format, there is omitted from this model government-to-government agreement A.I.D.'s right to charge to Borrower under the loan expenses of collecting amounts due under refund or default provisions. Such remedy would nevertheless have utility in non-government loans, however. Such remedy would nevertheless have utility in non-governmental loans, however.

In the grant Sec. D.2, sub-section (a) is intended to cover a country refund case where the refund serves the purpose of disassociating A.I.D. from a particular disbursement, good or service. the purpose of sub-section (b) is to provide a remedy in a case where there is a breach of an obligation by Grantee. E.g., if the project includes A.I.D.-financed commodities but they depend for their effective use on a sufficient number of personnel being assigned to the activity by Grantee, sub-section (a) above might well not provide a remedy, but sub-section (b) would.

Grant Sec. D.2(e): This provision is intended to implement Comptroller General decisions to the effect that if a grant for a specific purpose is made by the U.S., any use of grant funds by the grantee to produce interest (or other earnings), prior to use for the purpose for which granted, is illegal, as constituting in effect unauthorized augmentation of the granting agency's funds. (E.g., if Congress appropriates $1 million for a grant program, the agency cannot in effect convert this to a grant program of $1.06 million, by disbursing earlier with grantee getting the interest factor.)

Although this model agreement is generally not intended to be used for intermediate credit institutions (ICI's), the language in this section ("prior to the authorized use of such funds for the Project") is worded to try to cope with projects (e.g., perhaps, rural credit) under which interest on funds may, legitimately, result, and not be required to be returned. (The Comptroller General rules do not impede ICI financing, credit schemes -- or indeed budget support, though that is outside the scope of this agreement.)

If the grant is of a currency other than U.S. dollars, the provision should be appropriately revised, as by concluding: "...returned to A.I.D. by the Grantee in the currency in which granted." (On a dollar grant disbursed in local currency, interest would be returned in dollars, however.)

APPENDIX 6C-1

GUIDANCE FOR DRAFTING

AMPLIFIED PROJECT DESCRIPTION

The following outline is prepared to assist personnel in drafting the amplified project description. The outline should be used flexibly to ensure the description is tailored to the individual project. The degree of detail contained in the amplified project description will depend in large part on the complexity of the project and prior experience in obtaining requisite support from the B/G. Although the Regional Legal Advisor is available to assist in the preparation of the amplified description, it is suggested that the initial draft be prepared by the Project Officer.

The amplified project description should be prefaced by a statement to the effect that elements of the description may be changed by written agreement of the authorized representatives of the parties named in the PROAG without formal amendment of the agreement, provided that such changes are within the general scope of the project as set forth in the text of the agreement.

Contents of the amplified project description should include:

I. General Project Description:

This section would provide a narrative discussion of the project's goal, purpose, outputs and end-of-project status. In addition, this section can include such items as the following, or they can be included within the Basic Implementation Letter which will be countersigned by the appropriate B/G representatives:

-- interrelationship between the project and other AID-financed or other donor activities;

-- the schedule and target levels for outputs;

-- general implementation schedule.

II. Responsibilities of the Participants:

This section would summarize the major responsibilities of the project participants. Participants would include other donors, if appropriate. The section should describe the schedule and major categories of inputs which are to be provided by each participant, and relevant managerial, support, coordinating, reporting and monitoring responsibilities, as well. If felt desirable, the physical quantities and monetary value of major inputs for each year of the project can, in addition, be shown in tabular form.

III. Illustrative Financial Plan:

This section should be prefaced by a statement that the plan is illustrative and that changes may be made to the plan by representatives of the parties named in the text of the Agreement without formal amendment to the Agreement if such changes do not cause (1) A.I.D.'s contribution to exceed the amount specified in the text of the Agreement, or (2) the B/G's contribution to be less than the amount specified in the text of the Agreement. Additionally, in the case of incrementally funded projects, the plan should note that future A.I.D. obligations are subject to the availability of funds and mutual agreement of the parties to proceed. (See illustrative financial plan formats included in this Appendix.)

IV. Financing Methods:

The amplified project description (or, in place thereof, the Basic Implementation Letter) should specify:

- general disbursement methods agreed upon for A.I.D. funds;
- methods of payment under Fixed Amount Reimbursement financing, etc.

V. Evaluation

B/G and A.I.D. responsibilities for conducting project evaluations should be discussed here. Any essential B/G reporting or data gathering requirements should be described in this section or in the Basic Implementation Letter.

VI. Special Considerations

Discuss any provisions, covenants or conditions precedent which, in the Mission's view, deserve special amplification or emphasis (e.g., special environmental needs, other donor requirements and/or conditions of cross-effectiveness of multilateral agreements).

ILLUSTRATIVE

PROJECT FINANCIAL PLAN
(Source and Application of Funding - $ Millions)

As of _____, 19__ Project No. _____

PROJECT INPUTS	AMOUNT FOR AN INCREMENTALLY FUNDED PROJECT								
	Cumulative Obligations as of _____, 19__			Future Years Anticipated			Total		
	A.I.D.	B/G	OTHER	A.I.D.	B/G	OTHER	A.I.D.	B/G	OTHER

(This is not a standard A.I.D. form. It may be adapted as desired for each project, so long as the required data is presented.)

TOTAL

NOTE: For Instructions, see reverse side of the page.

ILLUSTRATIVE

PROJECT FINANCIAL PLAN
(Source and Application of Funding - $ Millions)

As of _____, 19__ Project No. _____

PROJECT INPUTS	AMOUNT FOR A FULLY FUNDED PROJECT					
	A.I.D.					
	Loan	Grant	Borrower/Grantee	Other	Total
TOTAL					

(This is not a standard A.I.D. form. It may be adapted as desired for each project, so long as the required data is presented.)

NOTE: For Instructions, see reverse side of the page.

INSTRUCTIONS

1. The date shown is the date of the Project Agreement, amendments thereto, or revisions to the Illustrative Project Financial Plan made by representatives of the parties to the Agreement, whichever is latest. The original will be conformed to bear the date the Project Agreement was executed.

2. Total AID obligations must agree with the amount shown in Section 3.1. B/G commitments and OTHER source funding (if any) will reflect total contributions planned for the project; be consistent with the Project Paper, and the B/G Total will not be less than the amount specified in Section 3.2.

3. All figures will be stated by source and project inputs. They may be further broken out, preferably by the use of separate line items for local and foreign exchange costs, and Loan/Grant basis.

4. Be sure to cross-total the amounts of funding by project input and source of funding.

5. Significant change in the amounts of AID financing allocated to each of the project inputs, subject to any limitation or reallocation of project funds which may be specified, should be documented by mutual agreement, in writing, so long as the cumulative total stated in Section 3.1 is not exceeded. Similarly, significant changes in the allocation of financing by the B/G should be documented by mutual agreement in writing, so long as the total amount is not less than that set forth in Section 3.2. The criteria for determining what is significant should be tailored to the needs of each project. For further guidance on this point, refer to the "Guidance Notes for Preparing Model Project Agreements" at Appendix 9B.

Exhibit 2

APPENDIX 6D

Guidance Notes for Preparing Combined Loan and Grant Project Agreement

This guidance is keyed to the model "Combined Loan and Grant Project Agreement" at HB 3, Appendix 6A-3.

The Combined Loan and Grant Agreement format is not mandatory: separate loan and grant documents may still be used for a dual-funded project.

Guidance notes for the individual loan and grant project agreements, at HB 3, Appendix 6B, also apply, as appropriate, to the combined format. Thus drafting options indicated by the formats (e.g., by use of square brackets [ ]), or allowed in those guidance notes, also apply here. Drafters may, if preferred, when referring to the combined funding, use the term "Loan and Grant" instead of the model's "Assistance." Also, if the country prefers some other designation than "Cooperating Country," this can be accommodated, but if so a number of places in the agreement which use "Cooperating Country" to refer to the geographical entity (as contrasted with the Government) will need to be checked for adequacy of reference.

Standard (individual) loan and grant agreements differ from each other chiefly in the area of termination provisions. The combined form generally elects the loan format, where choice is required. One point is worth noting:

- Sec. 4.6, referring to termination of obligations on full loan repayment, recognizes that obligations arising under the Grant may survive. These are, for practical purposes, only the annex's refund provision Sec. D.6, and Sec. B.3 on utilization

of resources granted. Such provisions have no application on the loan side when the loan is repaid. The same feature can be seen in Annex Sec. D.5, "Continued Effectiveness of Agreement."

One additional cautionary note is in order. The drafting of a Loan and Grant Project Agreement must take into account, inter alia, A.I.D.'s differing policies regarding the eligibility under grant or loan assistance of AID financing for commodities and delivery services. Reference should be made to HB 1, Supplement B, Chapters 5 and 7.

APPENDIX 6E

GUIDANCE NOTES FOR PREPARING GRANT PROJECT AGREEMENT(SHORT-FORM)

This guidance is keyed to the model "Limited-Scope" Grant Project Agreement in HB-3, App. 6A-4.

Where the limited-scope agreement overlaps with the long-term loan and grant agreements, it will be useful to consult the Guidance Notes for Project Loan and Grant Agreements (See HB-3, App. 6B and 6D).

This form is not to be used for grants which would otherwise be included within the scope of HB-13.

Although the guidance notes for the long-term project loan and grant agreement indicate drafting choices or options for drafting those agreements, such choices or options are general,y speaking not built into the limited-scope agreement form. The limited-scope agreement form, like that of its predecessor the ProAg (cancelled form AID-1330-1) under cancelled M.O. 1331.1, is intended to be suitable, without amendment, for projects for which it will be used.

NOTES:

Form AID 1330-17,Limited Scope Grant Project Agreement (Cover Page)

Block 2 - AID Project Number is the seven digit number used for the project subsequent to the PID stage (form AID 1330-2)

Block 6 - List the documents included in the Project Agreement, e.g., project description, special provisions and standard provisions annex. Reference to "special provision" will be omitted if there are none.

Block 5 - Project Assistance Completion date (PACD) - The PACD to be inserted is established in accordance with the guidance in HB-3. Description of the PACD is contained, among other places, in the Guidance Notes for the long-term project agreements in HB-3, App. 6B.

Form AID 1330-17A, Project Agreement (Amendment Page) - This form will be used as the title page (or only page) for amendments to limited-scope project agreements. If the amendment text takes more space than is provided on this amendment page, the amendment text may be continued on bond paper. Identify the attached pages with the AID Project Number (see Block 2) and Amendment Number (see Block 3) on the upper right-hand corner of the page. Beneath that insert "Page _____ of _____Pages."

Form AID 1330-17B, Annex A - Project Description - The Project Description will describe the project in accordance with the definition in the document authorizing the project. It may well be judged desirable to amplify the description in the authorization, based on the fuller description in the Project Paper (form AID 1330-4), or other documentation on which project approval was based; but the description in the agreement cannot conflict with the authorization.

The Project description should be as succinct as is compatible with the need for it to provide a full understanding between the Parties as to what is to be done, in what general manner and by whom, when, and at whose cost, under the Project. In the limited-scope agreement, the description of the project (including financial planning) will be contained only in this annex. There is no separate amplified or detailed description, as in annex 1 of the long-form agreements.

The description in the limited-scope agreement cannot be revised without amendment of the agreement (although details can be clarified by mutual agreement recorded in a counter-signed Project Implementation Letter (PIL), form AID 1330-17C). Accordingly, drafters must balance the need for a fully stated understanding against the desirability of not being overly detailed.

Form AID 1330-17C, Project Implementation Letter (PIL) - The PIL is provided for in the limited-scope project agreement, as in the long-form loan and grant agreements. See paragraph 'O' of the Standard Provision Annex, below. This form, for the first page of the PIL, is provided to make sure that the PIL is readily identified and that it is clearly linked to the agreement pursuant to which it is issued.

A principal function of the PIL mechanism is to allow AID to provide the grantee information on detailed matters which would, needlessly, encumber the agreement itself, if the attempt were made to cover all such points there. Thus, detailed AID requirements with respect to procurement of commodities or services, or air transport, etc., can be covered as necessary in PIL's or in implementing PIO's.

Many such detailed requirements are built into PIO's, or are applied routinely by the implementing U.S. agency. In cases where the Grantee is procuring, and PIO's are not used, the PIL will transmit the detailed information to the Grantee. (Paragraph K, to the effect that AID will expend funds only in accordance with applicable laws and regulations of the U.S.G., is of course one basis for the application by the PIL of rules not otherwise stated or referred to in the Agreement.)

Form AID 1330-17D, Standard Provisions Annex - These provisions represent an updating of the old ProAg (cancelled form AID 1330-1) of canceled M.O. 1333.1. They are intended to be compatible with those in the long-form Project Loan and Grant Agreements.

Paragraph:

A. Self-explanatory.

B. (1) The words 'as necessary for the Project,' qualifying the amount of the grant, serve the same function as the words 'not to exceed' the sum granted in the long-form grant agreement. That is, if the needs of the project turn out not to require the full amount of the grant to be disbursed, AID is not obliged to disburse the remaining balance. Annex A is the Project Description (form AID 1330-17B).

C. Self-explanatory.

D. Project Assistance Completion Date: The PACD is based on that in the long-form loan or grant agreements.

E. PIO's: "Where so required by AID procedures" may be taken to include that part of HB 3 which prescribes PIO use; see AIDTO Circular A-31, February 2, 1978.

F. This provision states that Reg. 1 will apply to commodities financed by AID unless a controlling PIO or PIL specifies otherwise. This incorporates expeditiously a wide range of provisions, not all of which in fact may be germane to a procurement for a limited-scope project. The PIO or PIL may incorporate only parts of Reg. 1; may itself state the relevant rules; or may incorporate by reference appropriate portions of other guidance such as Handbooks.

G. Self-explanatory.

H. Use and Refunds:

(1) The last sentence is the refund provision covering property.

(2) This is the refund provision covering funds. Both this and the preceding subsection are expressed in a reciprocal fashion: they apply to both parties. Situations where AID receives property or funds from the Grantee may include, for instance, local currency funds-in-trust situations and logistical support arrangements.

Form AID 1330-17D, Standard Provisions Annex (continued)

I. Taxes: Particularly if the Grantee will be paying the taxes described, rather than handling the matter by existing exemptions, it may be desirable to note this understanding in the Agreement. This should be done in a special provision, or alternatively, in the description. The greater the specificity that can be provided in detailing which taxes are to be so paid, and from which ministry's budget, the better. Some form of advance payment of tax or duty by the cooperating ministry, such as an escrow fund, has often been found a useful payment mechanism where it can be arranged. If the tax is handled by exemption, rather than by payment, the agreement which gives the exemption, e.g., the bilateral, can be referenced, but even then specific identification may be made of the taxes to be exempted, since the language of the bilateral is usually general.

J. Self-explanatory.

K. This provision puts the grantee on notice that there are other U.S. and AID laws and regulations, apart from those reflected in the agreement itself, which AID must see are complied with in carrying out the assistance.

L. Self-explanatory.

M. Self-explanatory.

N. Self-explanatory.

O. See discussion above under Project Implementation Letter, form AID AID 1330-17C.

APPENDIX 6F

GUIDANCE ON PUBLICITY OF AID ASSISTANCE

1. Announcements of U.S. economic assistance, in the form of loans, grants, or guaranties to foreign governments and private entities, are to be made in the following procedure:

(Prior to public announcement, foreign governments will be officially informed by the Chief of Mission or his representative of any loan, grant, or guarantee which is approved. It is understood, however, that there will be exceptional cases when such a procedure cannot be followed; e.g., when announcements are made by the President or when special high-level negotiations have been involved and it is expedient and/or necessary to make the announcement in Washington. In such cases the post will be informed as far in advance as possible.)

Immediately upon authorization, a brief background telegram giving the relevant details will be sent to the Chief of Mission or his/her representative. He/she should inform appropriate officials orally and/or in writing of the approval. This same telegraphic communication will also indicate, if possible, when A.I.D. plans to issue a press release. This information may also be conveyed to the appropriate officials. The proposed release date will give the field a practical lead time. When the press release date cannot be given in the initial telegram, a subsequent telegram will be sent to the post giving the expected release date. Based upon the information contained in the initial telegram, posts are authorized to draw up their own press release, in coordination with the foreign government, if appropriate, for approximately simultaneous release with the announcement in Washington. This press release should be cleared with the appropriate desk in Washington prior to issuance. Except in instances where specifically stated, it is not necessary for the field's press release to use the same text as released in the United States. However, the field's press release should confine the technical and financial aspects of the loan or other transaction to specific material contained in the background telegram.

2. AID/W acts as follows for the announcement of loans, grants, or guaranties:

A. Background Telegram

Upon authorization of grants or loans or approval of guaranties, the Geographic Bureau shall dispatch a background telegram to the USAID Mission and Embassy including: (1) advice of authorization (approval); (2) a summary of the relevant details of the activity; (3) instructions for notifying the Borrower/Grantee of the approval; and (4) a statement of the date of public announcement or that notice of proposed date will follow, and that a formal letter of advice will be forwarded by or through the Mission for delivery.

B. Press Release

The Geographic Bureau notifies the Press Relations Division of the Office of Public Affairs (OPA) of the dispatch of the background telegram, and supplies OPA with a draft Washington press release or material for OPA use in preparing the press release. OPA is responsible for coordination of press release dates with the field.

C. Avoidance of Premature Announcements

Unless there are exceptional circumstances, no publicity of assistance is released until actual approval/authorization of assistance by the appropriate authorized AID official. In addition, no announcement of a loan, grant, or guarantee is made available to a country's Embassy in Washington until the passage of 24 hours after such information has been transmitted by priority telegram to the Mission and Embassy in the country concerned, or at such time as requested by the Mission and Embassy.

3. Each Mission through the Chief of Mission or his representative, shall establish appropriate procedures to assure compliance with the general policies and procedures outlined.

4. The above considerations regarding publicity should be observed when publicity regarding signature of Project Agreements is determined useful. In some cases, particularly when negotiations may be difficult, only publicity regarding signature of the Project Agreement may be appropriate. Normally publicity is either at the time of approval/authorization or at signing of the Project Agreement. Both events can receive publicity if a significant time period has elapsed between the two events.

APPENDIX 6G

GUIDANCE ON MEETING THE CASE-ZABLOCKI ACT

The Case-Zablocki Act (1 U.S.C. Sec. 112b) requires the Secretary of State to transmit the text of all international agreements, other than treaties, to the Congress no later than 60 days after their entry into force. The Act also provides that no international agreement may be signed or otherwise concluded on behalf of the United States without prior consultation with the Secretary of State. * For FY 1988 and 1989, the Foreign Relations Authorization Act stipulates that failure to comply with the 60-day transmission rule will result in the suspension of availability of funds to implement the agreement in question, until the text of that agreement has been transmitted to Congress. The Statement of Managers accompanying that Act, however, provides that A.I.D. will be deemed to have satisfied the 60-day Case-Zablocki Act requirement if cable confirmation of the signing of an agreement, including the amount obligated, is received by Congress within the 60-day period.

The State Department regulations for implementing the Case-Zablocki Act are set forth at 22 CFR Part 181. The State Department, after consultation with Congress, has established working procedures for implementing this Act. *

PRIOR CONSULTATION

Under the procedures established for complying with the requirement for prior consultation, all A.I.D. Assistant Administrators, Office Directors, and Mission Directors are directed to submit two copies of the following agreements to the A.I.D. General Counsel at least fifty days prior to the anticipated date for concluding a proposed agreement, or as soon thereafter as possible if unusual circumstances prevent meeting the 50-day deadline. The General Counsel will review:

1. All basic A.I.D. framework agreements, including economic bilateral agreements, and other agreements which are the first between A.I.D. and a particular country. Where a bilateral agreement specifies the types of assistance to be granted by A.I.D. and the bilateral agreement has been approved by the State Legal Adviser, all subsequent loans and grants by A.I.D. to that country which follow the terms of the bilateral agreement are exempt from the requirement for prior consultation.

2. Loan and grant agreements which are not specifically covered by a bilateral agreement and which are for amounts of 25 million dollars or more.

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* Revised

3. Loan and grant agreements which are not specifically covered by a bilateral agreement and which are significant for reasons other than the size of the financial commitment.

The interagency review process in which the State Department and A.I.D. participate satisfies the requirement for prior consultation with respect to country-to-country P.L. 480 agreements and agreements under section 416(b) of the Agricultural Act of 1949 and they need not be submitted independently.

The General Counsel will review these agreements and submit them to the State Department Legal Advisor for Treaty Affairs.

TRANSMISSION

*

1. Missions are to cable, immediately upon signing of an agreement subject to the Case-Zablocki Act (see paragraph 2 below), confirmation of the date of signing and dollar amount. Cables are to be addressed to State L/T and A.I.D. LEG, State L/T will insure transmittal of the cables to Congress.

2. To meet the requirement for transmitting the text of all concluded international agreements to Congress, the responsible officers are directed to transmit via pouch marked for L/T, Department of State, the original or a duly certified copy of the following agreements, as soon as possible after the agreement has been signed:

a. All basic A.I.D. framework agreements, including economic bilateral agreements.

b. All loan and grant agreements (excluding P.L. 480 Title II and section 416(b) agreements), whether or not they are covered by a bilateral agreement, which are for amounts of 25 million dollars or more, or which are significant for reasons other than the size of the financial commitment. P.L. 480 Title II and section 416(b) agreements have been determined not to be international agreements within the terms of the Case-Zablocki Act and, therefore, need not be transmitted to Congress.

c. All P.L. 480 Title I and Title III agreements, regardless of their amount. *

The certified copy shall bear the following typed statement signed by any responsible official of the office or mission transmitting the copies: "Certified to be a true copy of the original signed by (name of U.S. official) and (name of other country's official)." Signed (name of Certifying Officer) and dated.

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* Revised

Each copy must be accompanied by:

(1) A brief statement identifying the nature of the agreement (e.g., "This Agreement provides that A.I.D. will lend the Government of Country X up to $30 million for construction of an irrigation system").

(2) In the case of loan or grant agreements which are for less than $25 million but are nevertheless deemed to be significant, the reason for this significance should be stated. No such statement is necessary for P.L. 480 Title I and Title III agreements.

(3) A copy of each annex or attachment to the agreement. (In the case of Project Agreements, copies of the following need not be submitted: ProAg Standard Provisions Annex - form A.I.D. 1330-1B; ProAg Foreign Currency Standard Provisions Annex form A.I.D. 1330-1C; and ProAg Special Loan Provisions Annex - form A.I.D. 1330-1D. The reason for this exemption is that these standardized texts have been published and are already available for the information of the Congress.)

(4) The original or a duly certified copy of the foreign language text as well as the English text if the foreign language text as well as the English text has been signed as an international agreement.

If there is any question about whether a particular document is required to be submitted to the State Department for prior consultation or for transmittal to Congress, two copies of the document in question should be sent to the A.I.D. General Counsel along with a memorandum requesting a decision in the matter.

APPENDIX 6H

(SAMPLE FORMAT)

PROJECT AGREEMENT AMENDMENT

AMENDMENT /Number____ /, dated _____, between the UNITED STATES OF AMERICA, acting through the Agency for International Development ("A.I.D.") and -Borrower/Grantee- _____( ):

WHEREAS, the __ - Borrower/Grantee - ____ and A.I.D. entered into a /PROJECT, Loan, Loan/Grant or Grant/ Agreement, dated _____, ("Agreement"); and

WHEREAS, __ - Borrower/Grantee - __ and A.I.D. desire to amend the Agreement to reflect __ - general changes - __ to the Agreement;

NOW THEREFORE, the parties hereto hereby agree that the Agreement /and/or Amendments _____ thereto/ shall be amended to read as follows:

1. (Insert specific changes)

2. ---

3. ---

etc.

Except as amended herein, the Agreement / and/or Amendments _____ thereto/ between __ - Borrower/Grantee - __ and A.I.D., dated _____, remains in full force and effect.

IN WITNESS WHEREOF, - Borrower/Grantee - and the UNITED STATES OF AMERICA, each acting through its respective duly authorized representative have caused this Amendment to be signed in their names and delivered as of the day and date first above written.

UNITED STATES OF AMERICA _____

By: _____

Title: _____

- BORROWER/GRANTEE -

By: _____

Title _____

/ Other Parties Thereto /

By: _____

Title: _____

CHAPTER 7
INTRODUCTION TO PROJECT IMPLEMENTATION

CHAPTER 7

INTRODUCTION TO PROJECT IMPLEMENTATION

7A. Scope of Chapter

This chapter contains a discussion of certain terms used in this and the remaining chapters of this Handbook and a summary of implementation principles.

7B. Discussion of Selected Terms

1. Implementation

To "implement" means to put into effect. "Project implementation," therefore, is the aggregate of all actions taken to put a project into effect. In a broader sense, implementation of a project is a phase of the project cycle, of which project identification, project design (or project development), approval and negotiation (agreement between two or more parties on the content and purposes and methods of putting it into effect) are earlier phases. For discussion purposes in this Handbook, implementation begins with the signature of a Project Agreement in bilateral projects and with the signature of a contract or "contract-level" grant (see paragraph 4, below) for certain centrally funded and centrally administered projects which do not require "implementation" actions by another government or foreign institution through another government.

2. Project Operations

Projects designed to create new physical structures (e.g., roads, schools, housing, irrigation systems, etc.) or new organizations (e.g., a statistical department, a rural health service or a credit institution) enter into "operations" after the project has been "implemented," i.e., they can begin to achieve the purposes for which the project was designed only after the construction or organization necessary for their operation has been completed. The distinction between the implementation and operating phases of a project is important both for project design (because project operations must be considered in deciding on the elements to be included in the project definition) and for the definition of implementation actions, including monitoring (see below).

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3. Monitoring

a. To "monitor" is to watch or otherwise observe actions taken by others. "Project monitoring," therefore, is the aggregate of all actions taken to observe implementing and, depending on the project definition, operating actions taken by others.

b. "Monitoring" is included in the concept of "implementation" when the latter term is used to describe a phase in the project cycle, as defined in paragraph 1, above. It must be distinguished from "implementation," however, when the different tasks that have to be performed during the implementation phase are analyzed. Monitoring actions are, strictly speaking, not "necessary to put the project into effect"; rather they are performed to gather information on implementation progress, and to the extent that this is possible in the implementation phase, in project performance. Distinguishing between implementation and monitoring tasks is not just a definitional nicety. The distinction is important in: (i) planning for the implementation arrangements for individual projects and agreeing with the other parties on the assignment of individual implementation tasks, and (ii) in establishing a monitoring system for a project which meets the needs of AID. A detailed discussion on monitoring will be found in Chapter 11.

4. Pre-Implementation Actions

Some implementation actions can be taken prior to execution of the Project Agreement, such as drafting invitations to bid, procurement notices and preparing detailed implementation plans. While AID is restricted from taking actions that may constitute a commitment of funds before the Agreement is executed (see Chapter 10), the Borrower/Grantee might take such actions at its own risk if it is clear to all parties that Borrower/Grantee funding, not AID's, is financing the action. AID may later reimburse the Borrower/Grantee for such expenditures if they meet AID eligibility criteria for financing under the project.

5. Start of Project

In the broadest sense, a project begins with the presentation of an idea which is developed, documented and approved in the manner described in the initial chapters of this Handbook. However, the term "start of project" refers to the beginning of project implementation. The signing of the obligating agreement, e.g., a Project Agreement (or a Grant Agreement with a nongovernmental organization) is seen as the point at which the implmentation phase of a project begins. Even though some pre-implementation actions may have been taken by the Borrower/Grantee and/or AID before the Agreement was signed, the implementation period (the "life of the project" is counted from the date the Agreement was signed.

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6. Life of Project

The life of the project is the time period during which AID assistance is being provided. It is estimated during project design and runs from the obligation of AID funds in the Project Agreement to the planned Project Assistance Completion Date (PACD-see definition below). The PACD is noted in Project Agreements signed with recipient governments. Project Agreements not with governments, for instance a grant to a PVO, may identify the end of the period of AID assistance differently, as by stating that the assistance is available only for costs incurred during a stated period of time, e.g., through December 31, 19 .

Note: The "life of the project" relates to the period of AID assistance to the project; it is not the same as the period of overall project implementation and/or operations. The latter may continue for some time after the PACD if other participants are still providing inputs or carrying out activities needed to complete the project. In such cases, some AID monitoring and/or evaluation responsibilities will be continued, e.g., to verify completion and operation of project outputs.

7. Project Assistance Completion Date (PACD)

This is the date by which AID and the Borrower/Grantee estimate that all services financed by AID will have been performed and all goods financed by AID will have been furnished for the project. The PACD is, in effect, determined by adding the approved life of project, e.g., four years, to the date upon which AID funds were obligated, i.e., by signing the Project Agreement, or Grant Agreement with a nongovernmental organization.

AID administrative support actions normally continue after the PACD; e.g., the Agreement usually allows for a period of nine months after the PACD in which the Borrower/Grantee or contractors can file requests for disbursement. This extra period is to allow for normal certification and processing of final Borrower/Grantee or contractor payment documentation.

8. Implementing Agency

The entity which is responsible for implementation of a project is herein referred to as the "Implementing Agency." Such an entity may be a part of a national government, such as a Ministry, a subdivision of a Ministry or a government agency at a lower level, e.g., a provincial or municipal government. It may also be a government-owned or "semi-autonomous" corporation or similar organization, or a private or mixed corporation (partly owned by a government and partly by private individuals or entities). The

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determination of the Implementing Agency depends on the location of the responsibility for the substantive functions in project implementation, e.g., the day-to-day management, provision of staff, sites and personnel and similar functions. Collateral functions, such as budgeting for and disbursement of funds, may be assigned to a different entity which does not, based on that fact alone, become an Implementing Agency. There are, however, cases where more than one entity has substantive responsibilities in implementing the entire project or discrete components of a project; in that event, all such entities are Implementing Agencies. The differentiation between Implementing Agencies and other entities which have collateral responsibilities is important in establishing: who has the primary responsibility for a project; with whom AID must deal during the implementation of a project; to whom Implementation Letters and other correspondence must be addressed, and which entity or entities must be the focal point of AID's monitoring.

9. Contracting Agency

The "Contracting Agency" is that entity which is responsible for contracts for goods and services to be acquired. The Contracting Agency may be the Implementing Agency or another, usually governmental, central supply or procurement entity. The term "Contracting Agency," as used in this Handbook, does not apply to public or private entities retained by a government under contract to provide procurement services, such as purchasing agents or contractors primarily retained to provide professional services. (See also the "Definitions" section in Handbook 11.)

7C. Implementation Principles

1. AID Policy

AID's "Implementation Policy" is stated in Part VII - 1, Handbook 1; it has three elements:

-- to provide assistance as speedily as possible and to ensure its efficient utilization;

-- to aim at an increasingly larger role for recipient countries in the implementation of projects; and

-- to minimize the costs and maximize the benefits to U.S. interests other than providing assistance to LDC's.

The likelihood of conflicts between these principles is recognized. Stressing efficiency in project implementation may run counter to maximizing involvement of the recipient government's personnel; speed or efficiency may also be incompatible with the restriction of procurement of U.S. and LDC sources. It is also recognized that no generally applicable formula can be devised which would assist in resolving such conflicts.

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2. Implementation Planning

AID's policy objectives must be reconciled during project design and, specifically, in planning for project implementation. The solutions will depend on the circumstances in which a particular project is to be implemented, i.e., the institutions involved, the project personnel expected to be available and the broader political and cultural conditions existing (the "project environment"). Without a thorough assessment of those factors, and their careful consideration in planning for project implementation, the achievement of project objectives is highly unlikely. Even if otherwise impeccably designed, projects are unlikely to succeed if implementation is not given the proper attention from the outset, i.e., during the project identification and development phases. Implementation Planning is discussed in greater detail in Chapter 9.

3. Implementation Methods

a. The first major distinction between methods of implementing a project is "implementation by AID" and "joint implementation" by AID and one or more other entities.

(1) In the first category are those projects which are undertaken for the benefit, but without the active involvement, of other countries. Such projects are, for practical purposes, exclusively projects funded and administered by AID's "central" bureaus, e.g., the Bureau for Science and Technology (S&T); they are frequently referred to as "centrally funded" projects. Most, but not all of those projects are implemented by contracts between AID and public or private institutions or by grants to such institutions ("contract-level grants"; see paragraph D2b, below); agreements with other countries are often not needed for the implementation of such projects. AID has responsibility for the administration of the contracts or grants and for disbursement of funds required for the work specified in them. AID may not have other implementation responsibilities because the substantive tasks are often assigned to the contractor or grantee. It has, however, responsibility for administering the contracts and monitoring performance and progress.

(2) In the second category ("joint implementation") are all projects carried out under agreements with one or more countries or with regional entities. These projects are, for simplicity, referred to as "bilateral" projects, even though the agreements may, in fact, be "multilateral," i.e., have more than two contributors. This category thus includes the vast majority of projects financed and supervised by AID's Regional Bureaus. Joint implementation is involved even in those projects in which a B/G entity has only minor responsibilities, such as making trainees or counterparts available or providing a site or office space. (See Chapter 8, B3 for a listing of typical implementation actions.)

b. Within the category of jointly implemented projects, the importance of AID's role can differ greatly. As pointed out above, AID has the policy of keeping its own implementation responsibilities to the minimum compatible with a reasonably prompt and efficient execution of projects and of maximizing the role of the aid recipient. That policy is sufficiently broad to permit different patterns in the assignment of implementation responsibilities and the choice of the pattern best suited to the circumstances in which the project is to be implemented. Factors to be considered in making that choice are discussed in Chapter 9 ("Implementation Planning").

c. Since in practically all projects contractors are used to perform specific implementation tasks, and since contracting is, therefore, an important implementation function, AID has dealt with that aspect of implementation in a separate Policy Determination (see Appendix 3I,3J). The assignment of responsibility for contracting to either the B/G or AID is the basis for a major categorization of implementation methods. The categories are known as "AID Direct Contracting" and "Country Contracting"; they are discussed in paragraph C3, Chapter 8.

7D. AID's Responsibilities in Project Implementation

1. General

This section contains a summary description of the responsibilities which AID must meet in the implementation of projects and AID's role in implementing centrally funded and bilateral projects. A detailed discussion of its role in the former will be found in Part I of Supplement A to this Handbook. Details on AID's responsibilities in bilateral projects are presented in Section C of Chapter 8. and Part II of Supplement A.

2. AID Implementation Responsibilities

a. Focus of Implementation - The context within which AID exercises its implementation responsibilities is, in the first instance, defined by the characteristics of centrally funded and administered projects and of bilateral projects. In the former, AID deals, usually exclusively, with contractors and the recipients of contract-level grants and Cooperation Agreements; in the latter, AID deals primarily, but not exclusively with governmental or other entities in a country assisted by AID. The focus in the implementation of centrally funded projects is, therefore, the administration of contracts and comparable agreements; in bilateral projects, the focus is the administration of a Project Agreement between AID and a Borrower/Grantee.

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b. Centrally Funded Projects - The principal functions exercised by AID in the implementation of centrally funded projects are:

-- contracting (or granting funds);

-- administering the contract or grant;

-- making payments to the contractor or grantee; and

-- monitoring the performance of the contractor or grantee.

In the context of a project in which no foreign government has any implementing responsibilities, these functions add up to total Project Management. Overall project management responsibility is normally assigned by the Assistant Administrator or by the Director of an office having jurisdiction for the project, to a Project Officer. He/she may be assisted by a Project Committee of which he/she is the chairperson. The Contract or Grant Officer, a member of M/SER/CM, is responsible for the negotiation of contracts and grants and for their administration (approvals, modifications, etc.); the Office of Financial Management (M/FM) establishes payment procedures and makes or authorizes payments (e.g., a "Certifying Officer" on the staff of FM must certify vouchers for payment). (See Supplement A for further details on the management of centrally funded projects.)

c. Bilateral Projects

The implementation of bilateral projects presents a more intricate pattern than the implementation of centrally funded projects and requires AID to play a different role. Although AID must assume responsibility for substantive implementation actions, it does not act as "Project Manager." The B/G and its agencies have not only the legal responsibility "to implement the Project[1] i.e. to manage its implementation, but substantive responsibilities as well. The Implementing Agency designated by the B/G is therefore looked upon as the "Project Manager." AID generally plays a subsidiary role (sometimes called a "support" role), but the interaction between AID

1 See, e.g., the Standard Provisions Annex to the Project Loan and Project Grant Agreements (Appendix 9A-1 and 9A-2, respectively, to Chapter 9). Article A refers to the fact that AID will assist the [Borrower or Grantee] in the implementation of the Project"; in Section B2, the Borrower or Grantee undertakes "to carry out the project . . ." and to "provide . . . management," etc.

and the B/G is affected by such factors as the capabilities of the Implementing Agency and the experience of its staff, the organization and operating practices of the B/G government, including the extent to which authority for decision making is delegated, and other political and cultural factors. AID's responsibilities regarding bilateral projects are carried out largely by its field organizations supported by units in Washington.

7E. Other Responsibilities During Project Implementation

1. General

During and after the implementation of projects, AID has responsibilities which relate to, but are not part of project implementation as that term is defined in paragraph B1 above. Those responsibilities are Monitoring, Evaluation and Auditing. Monitoring is discussed in Chapter 11, Evaluation in Chapter 12; the auditing function is described below.

2. Auditing

a. As a matter of policy, AID reserves for itself the right to audit all aspects of project implementation. It does so in Project Agreements (see Section B5 of the Standard Provisions Annex to the Project Loan and Grant Agreement in Chapter 6) with respect to the books and records to be maintained by the B/G and, with respect to contracts financed by AID and by requiring the submission of a "Certificate" which includes an agreement between contractors or suppliers and AID giving AID the right to audit the contractor's or supplier's books and records relating to the contract. (See HB 1B, Chapter 24 and HB 11). AID may exercise its audit rights by either conducting audits with its own staff, i.e., through the Office of the Inspector General (IG), by requesting other USG agencies (e.g., the Defense Audit Agency) to conduct audits, or by contracting with a commercial firm providing Certified Public Accountants (CPA).

b. Audits of selected contracts are conducted by the staff of the IG. Most AID-financed contracts, however, are audited by other USG agencies or by firms under contract with AID or the B/G.

c. Audits conducted by AID's Office of the Inspector General or the General Accounting Office (GAO) are usually "full scope" audits. Full scope audits encompass:

-- an examination of financial transactions, accounts and reports, including the evaluation of compliance with applicable agreements, laws, and regulations;

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-- a review of efficiency and economy in the use of resources; and

-- a review to determine whether desired results are effectively achieved.

IG and GAO audits may focus on an individual project or on an entire sector, country or regional program, or functional area. Legislative and administrative authorities give the auditors wide latitude in independently determining the activities to be audited and the timing of audits. Audit reports are issued to communicate the results of the audits and to focus management attention on matters which require corrective action. Such reports are usually distributed both within the Agency and the Congress.

CHAPTER 8

IMPLEMENTATION FUNCTIONS, PROCEDURES AND DOCUMENTATION

CHAPTER 8

IMPLEMENTATION FUNCTIONS, PROCEDURES AND DOCUMENTATION

8A. Introduction

1. This chapter discusses the principal functions, responsibilities and procedures involved in the implementation of AID during the project implementation sequence. Section B discusses major functions relating to project implementation; the location of responsibility for performing major implementation tasks; and the organizational units within AID having responsibilities in project implementation. It thus forms the background for the discussion in Section C of the procedures and documentation used by AID in meeting its responsibilities in project implementation.

2. The implementation of centrally administered projects with contracts, grants and cooperative agreements is not discussed in this chapter because the procedures and documentary requirements for those projects are set forth in detail in Supplement A, the "Project Officer's Guidebook - Management of Direct AID Contracts, Grants and Cooperative Agreements," dated June 1980. It should be consulted for all questions relating to the implementation of centrally funded and directly administered projects. This chapter deals only with bilateral projects.

3. Discussed here are only those actions which are directed towards "putting the project into effect" (see Chapter 7, Sections B1 and B2). Planning, monitoring, evaluation, and related subjects are discussed in subsequent chapters.

4. Training is either one element among several, or the sole element, in many projects. Because of its prominence within AID-financed activities, detailed procedures governing training financed by AID have been established (see Handbook 10, Participant Training). A brief discussion of training as an implementation task is included in Section C.

8B. Implementation Functions and Responsibilities

1. General

The actions that must be taken to implement a bilateral project are the same under the two possible financing methods (loan or grant)

discussed in Section C4 of Chapter 7. In both cases, the B/G and AID have certain responsibilities and the failure of either party to take effective and timely action will result in delays in the implementation of a project and may result in cost overruns and/or failure to achieve project objectives. The number of actions to be taken and the arrangements made for the assignment of responsibilities to the B/G and AID, respectively, differs with the type of project to be undertaken with the different aspects of "project environment". There are, therefore, different patterns of project implementation, distinguished by the distribution of implementation tasks between the B/G and AID. One of the major differences lies in the assignment of the contracting functions.

In keeping with AID's implementation policy, discussed in Chapter 7, Sections C1 and C2, responsibility for implementation should be lodged with the B/G to the greatest extent ensuring prompt, efficient project execution and minimal negative effects on U.S. interests. A factor to be considered is the ability of AID's field and Washington organization to perform efficiently in those areas for which additional AID responsibilities may be considered. Weighing these factors may, in any given case or country situation, lead to the conclusion that AID must accept responsibility for certain aspects of implementation. AID, however, does not take over the complete management of a bilateral project. Moreover, it is of critical importance for the success of a development assistance program that the recipient countries view projects, even though they may be largely financed by others, as part of their own development efforts. For these reasons, the bilateral agreements between AID and the B/G provide that the B/G "carry out," i.e., that it manage the project.[1]

Conceptually, there is a clear division of functions and responsibilities between the B/G and AID. In practice, however, the dividing line is somewhat fluid; its precise location depends on the experience of the management and staff of the Implementing Agency, on its organization, the authorities delegated to it, and its relationship to other government entities and AID. The ability to discharge implementation responsibilities can therefore vary not only between agencies within a country, but within the same agency over time. The lower the capacity and experience of an Implementing Agency, the greater the need for AID staff to look upon implementation actions as a joint responsibility, exercised in an informal partnership. Although that

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1/See footnote 1 to Section D2c of Chapter 7.

partnership is formed for the immediate purpose of expediting the implementation of a project, it should also be looked upon as an opportunity for on-the-job training of the Implementing Agency's project staff. To maximize institutional development, AID personnel should seek to achieve a given implementation objective by motivating, advising and supporting the Implementing Agency's staff rather than by taking the action themselves. It is recognized that certain recipient countries or geographic regions require more AID involvement than others, especially regarding procurement assistance and logistical support to contractors.

2. Implementation Functions

For a closer look at the components of project implementation, it is useful to classify them by function. Although other classifications would be listed to complete the range of important functions (e.g., technical supervision/inspection to ensure adherence to appropriate standards), the present discussion will be limited to the following functional groups. (See Handbook 3, Supplement A for additional information on functions and responsibilities.)

a. Project Management. Under this functional heading would fall all those actions which the "general manager" of a commercial organization would take or directly supervise. Prominent among such actions are overall planning and scheduling, recruiting and organizing subordinate managers and their staff, coordinating actions with other B/G entities and with AID and any other donors, and supervision of contractors. In many cases, outside assistance is necessary or advisable if the Implementing Agency is to meet all of these responsibilities; such assistance is usually obtained under contracts with commercial firms or nonprofit institutions. It is important to note, however, that the services provided under contracts are normally of an advisory nature; the operational responsibility remains with the Implementing Agency.

b. Financial Management Under this heading fall all the actions required to mobilize and employ the financial resources to be made available by the B/G and AID under the Project Agreement. Included are the establishment and operation of: detailed budgets, financial plans and expenditure forecasts by time period, payment procedures and financing instruments for both B/G and AID funds, a project accounting system, disbursements of funds to suppliers of goods and services, and all related actions. Assistance in this functional areas is also required in many cases; occasional help can be provided by AID's field staff, but longer term or intensive assistance must be obtained by contracting with a qualified consultant.

Contracting. The contracting methods that may be used ("Country Contracting" or "Direct AID Contracting") are discussed in Section C4d below. If the Implementing Agency, or another B/G agency, is the Contracting Agency, it has to take all actions required for the acquisition of goods and services needed for the implementation of the project. To the extent that AID funds are to be used to finance such contracts, conformance with AID requirements (set forth in detail in Handbook 11), and close coordination with AID are necessary. If the AID Direct Contracting method is used, the Implementing Agency has narrower responsibilities but should, at a minimum, approve the scope of services for service contracts and the specifications to be used in the procurement of commodities.

d. Reporting. Under agreements with AID, the B/G undertakes to "furnish AID such information and reports relating to the Project and to this Agreement as AID may reasonably request."[2/] In its "Basic Implementation Letter [3/], based on this clause in the Agreement, AID routinely requires the submission of "Quarterly Progress Reports. And "Quarterly Shipping Reports;" it often requires monthly progress reports and may specify additional special reports. While AID encourages the use of B/G reports to satisfy its own informational requirements, such AID requirements may be additional to any internal reporting required by the management of the Implementation Agency or other agencies of the B/G. Contractors providing services to the Implementing Agencies normally also prepare periodic reports on their activities or on progress of the project. Contractor reports on projects containing participant training components should use the cost reporting format detailed in the Training Cost Analysis system. Gathering information for use in the preparation of reports, analyzing reports received from contractors and preparing reports required by the B/G or AID involves a substantial effort, particularly in large and more complex projects. Thus reporting is justified in its designation as a separate function.

3. Typical Implementation Tasks

a. The list of implementation tasks which follows is intended to illustrate the range of actions which have to be taken in the course of implementing a project; the actions are grouped by function, based on the foregoing discussion. Some of the actions listed apply to all

2/ Section 13(5)a, Standard Provision Annex to Project Agreement; also see Handbook 3, Chapter 6, Appendices 6A-1 and 6A-2.
3/ See Appendix 8A to this Chapter.

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projects, others only to some. Some tasks, such as overall project management, contracting or accounting, are continuous or may be repetitive; others will have to be taken only once during the implementation of a project, e.g., meeting Conditions Precedent to Disbursement. The list is, therefore, illustrative of the actions which may have to considered; it is not a checklist applicable to every project.

b. The crosses indicating whether AID or the B/G is responsible for a task reflect a situation in which the B/G has accepted responsibility for all tasks except those which, by their nature, AID has to perform. Different allocations of responsibilities are possible, and may be advisable in the light of the circumstances in which a project is to be implemented. A situation in which AID would be initially responsible for all actions is, however, highly unlikely. If the conclusion is reached during project development that this would be necessary if the project is to be undertaken at all, the issues of project feasibility and its suitability for financial support by AID must be given careful review. As such activities are being implemented, periodic reviews should be made of earlier conclusions and consideration given to ways of maximizing the responsibilities and involvement of B/G participants.

c. Illustrative List of Implementation Tasks

Function	Task	Responsibility B/G	Responsibility AID
Project Management			
--	Planning & Scheduling	X	
--	Organizing, Recruiting and Assigning B/G's Project Staff	X	
--	Supervising Project Staff	X	
--	Supervising Contractors	X	
--	Coordinating with AID and other donors, if any	X	

-- Providing to AID documentation to satisfy Conditions Precedent and Covenants	X	
-- Reviewing and accepting documentation relating to satisfaction of CP's and Covenants		X
Financial Management		
-- Establishing detailed, time-phased financial plan, including B/G budgeting	X	
-- Establishing and maintaining B/G's project accounting system	X	
-- Agreeing with AID on disbursement procedures for foreign exchange and local currency	X	X
-- Preparing requests to AID for direct disbursements or Letters of Commitment or reimbursement	X	
-- Making direct disbursements, open Letters of Commitment or reimbursing B/G		X
-- Opening Letters of Credit in favor of contractors and suppliers	X	
-- Certifying invoices for payment	X	X[4]
Maintaining AID's accounts		X
Contracting		
(i) If Country Contracting is used:		
-- Arranging for publication of proposed procurement	X	X
-- Contracting for services	X	X

-- Purchasing Commodities	X	
-- Administering Contracts	X	
(ii) If Direct AID Contracting is used:		
-- Agreeing on scope of services (service contracts) and specifications (commodity procurement)	X	X
-- Contracting for services		X
-- Procuring or arranging for procurement of commodities		X
-- Administering contracts		X
Reporting		
-- Reviewing reports from B/G Contractors	X	X
-- Reviewing reports from Direct AID Contractors	X	X
-- Preparing reports required by other B/G agencies and AID	X	
-- Reviewing reports received from B/G		X

4/ See paragraph C3d(3), below, for discussion of voucher approval and certification by AID.

4. Role of Aid in Project Implementation

a. General. The discussion in paragraph 3, above, and in particular the listing of implementation tasks, demonstrate that both the B/G and AID have at least some implementation responsibility in every bilateral project; in any but the most simple project, e.g., those involving only advisory services, the B/G normally assumes responsibility for most implementation actions. Conversely, some action by AID is always required to implement a project, such as approving contracts and making, or arranging for, payments to service contractors and suppliers of commodities or, as in the case of some projects involving intermediate credit institutions, to institutions in the country of the B/G. Despite the fact that Project Agreements require the B/G "to carry out the Project," AID has responsibility for certain actions which make it possible for the B/G to do so. At least to that extent, AID is actively involved in the implementation of all bilateral projects. Describing projects as either "implemented by the B/G" or "AID implemented," or defining AID as an "agent" implementing a project on behalf of the B/G, is therefore inaccurate. Using such terms, even as a "shorthand" description of a pattern of implementation, tends to obscure the fact that both the B/G and AID are always involved in implementation. The differences between implementation arrangements lie in the degree of their respective involvement, i.e., in the number and importance of the specific implementation tasks assigned to each party.

This paragraph contains a discussion of the tasks for which AID is always responsible or may be responsible, depending on the implementation plan adopted for a specific project. These actions are presented under the functional headings used in paragraphs 2 and 3, above. The organizational units within AID to which those responsibilities are assigned are discussed in paragraphs 5 and 6, below; the procedures and documentation used by AID in meeting its implementation responsibilities are the subject of Section C of this Chapter.

b. Project Management

(1) When AID enters into a Project Agreement with a B/G, it does so on the precept that the B/G "will carry out the Project." (Relevant clauses in the Agreement which express that assumption are cited in Chapter 7, Section D2.) That assumption is not a "legal fiction" because it also forms the basis of the implementation plan developed for bilateral projects. Even if AID enters into a contract for services to be provided to the project, the contract may provide for

day-to-day supervision and direction of the contractor's personnel by an entity of the B/G. In that case the B/G must be looked upon as the project manager, while AID functions as contract administrator, limited to meeting such contractual obligations as giving formal approvals that may be required, making payments and generally overseeing the contractor's compliance with the provisions of the contract. Thus, the B/G is almost always the Project Manager.

(2) The foregoing discussion makes clear that a distinction must be made between managing a project and administering a contract under which professional services are provided. AID does not assume the role of project manager merely by virtue of accepting the responsibilities for contracting and contract administration. Rather, AID may contract for the provision of services, but the B/G manages their utilization.

(3) The distinction between managing the project and contracting for and/or managing the delivery of some or all of the goods and services needed by the project is important. Failure to appreciate the distinction can result in misunderstandings about the respective responsibilities of B/G and AID personnel in project implementation, with the result that either party expects the other to take action (and neither does) or that the Implementing Agency is given the impression that AID intends to act in a manner inconsistent with its own responsibility as project manager. Lack of clarity in defining the responsibility of the parties and failure to accept the implications of the definitions agreed upon can lead to delays in implementation and serious complications in the often intricate and sensitive relationships between contractors, the B/G and AID personnel during project implementation. These considerations are particularly important when AID staff is assisting the Implementation Agency in performing tasks for which the B/G is responsible. Such situations develop frequently, and it requires a complete understanding of the B/G's responsibilities as well as tact on the part of AID personnel to help solve a given problem without implicitly telling B/G personnel to "step aside, let AID take over."

c. Financial Management.

(1) In the area of financial management, AID and the B/G have some clear-cut responsibilities derived from their respective roles as financing agency and Borrower/Grantee. Thus, it is always a B/G responsibility to establish and operate its system of accounts, to submit to AID requests for reimbursement or to open Bank or Direct Letters of Commitment; to open Letters of Credit under Bank Letters of Commitment, to submit to AID the documents required for the payment of

invoices for services rendered or commodities supplied, to certify such invoices and, to service loans made by AID to finance the project. It is always AID's responsibility to pay such amounts as are properly documented and certified either to the B/G (in the case of reimbursements), to a bank (in case of Bank Letters of Commitment), or to the contractor or supplier (in case of direct payments or Direct Letters of Commitment).[5/] AID must, of course, also maintain project financial records and supporting documentation. It does maintain such records, however, primarily for its own purposes, i.e., the proper administration of public funds, rather than as part of project implementation.

(2) Other elements of financial management usually involve a more substantive collaboration between the B/G and AID. Financial planning, expenditure forecasting and reconciling accounts during project closeout are matters on which agreement must be reached between the parties. The process leading to such agreement will differ with the experience of the Implementing Agency and the extent to which it employs outside consultants. Either the B/G or AID may thus take the lead, but substantive contributions must be made by both parties.

d. Contracting

(1) Contracting for professional or construction services and purchasing commodities are implementation functions which must be exercised in practically all projects. It is frequently the first step in project implementation and, therefore requires particular attention during initial implementation planning and project development when a decision must be made as to which contracting "mode" is to be used. (See paragraph C3c(3) for a discussion of "contracting modes.") There are two "modes": contracting by the B/G ("Country Contracting") or by AID ("Aid Direct Contracting"). Although the terminology used may indicate that either the B/G or AID has exclusive responsibility for contracting, both parties, in fact, participate in the contracting process under both contracting modes. In Country Contracting, AID must review and approve all contracts over $100,000 and one or more preliminary steps (see paragraph C3c(4)). AID may also assume legal liabilities under Country Contracting in certain cases, e.g., disbursements under the Direct Payments method. AID is thus responsible for some contracting tasks regardless of the mode employed.

5/ See Section C3a below for a discussion of Disbursement Methods.

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(2) Under the AID Direct Contracting mode, AID contracts in its own name and assumes legal and financial responsibilities flowing from the contract. Thus AID does not act as an "agent" for the B/G in the legal sense of the term. If AID is sometimes referred to as the "contracting agent" when it assumes responsibility for contracting, that term should not be understood to indicate that the B/G's responsibility for project implementation has been automatically reduced. It merely means that AID has agreed to assume some responsibility for contracting and, possibly, contractor supervision. In AID Direct Contracting, the B/G must minimally, agree with the scope of services or specifications to be used in contracting (see paragraph C3c(5)) and is often involved in the negotiation/award process.

(3) Both the B/G and AID may contract themselves or make arrangements with others to contract for specific services or commodities. Contracting for professional services is normally handled directly by either the B/G or AID. Commodities, on the other hand, are often procured through intermediaries, e.g., Procurement Agents. The supply of "incidental" or "commodity related" services, such as transportation and erection or operator training services, are usually part of contracts for the supply of basic commodities. The B/G may make arrangements for procurement services through commercial Procurement Service Agents or include procurement services as an element of professional services contracts with commercial firms or educational and other nonprofit institutions. The B/G may also request AID to make arrangements for procurement with another U.S. Government agency or a commercial purchasing agent. Care must be taken, however, that a formal contractual relationship exists between either AID or the B/G and commercial purchasing agents so that its responsibilities are clear and enforceable. AID may also make arrangements for the procurement of commodities on its own with other USG agencies, e.g., the General Services Administration (GSA) or the Small Business Administration (SBA). (See Choice of Procurement Entity, Chapter 3, Appendix H.)

e. Reporting. The B/G's responsibilities for the submission of reports required by AID are set forth in Project Implementation Letters. In preparing these reports, Implementing Agencies use information supplied by contractors working under the project or may have the reports themselves prepared by such contractors, e.g., a procurement agent preparing and submitting the "Shipping Report." Either reporting method is acceptable, providing the reports contain all the information needed by AID. In many cases, reporting requirements are established not only by AID but also by the B/G for its internal use or by other financing institutions if the project is co-financed. All

such reporting requirements should be taken into account when the format and frequency of reports are established to minimize duplication. AID's internal reporting is a function of project monitoring and is discussed in Chapter 11.

5. Responsibilities of AID Field Offices

a. General. Overall responsibility for the implementation of projects rests with the Regional Assistant Administrators (Regional AAs) under Delegations of Authority from the AID Administrator. (See Section 6.) Most of those responsibilities have been redelegated by the Regional AAs to the Mission Directors, so that the vast majority of implementation actions are taken in the field without the involvement of AID/W. Exceptions from this general patter exist (a) in cases where Regional AAs or others have not redelegated authority to take certain actions, usually because not all of the necessary expertise is available to a Mission Director due to staff limitations, and (b) with respect to certain waiver authorities which are limited to AID/W approvals and cannot be redelegated. Handbook 1, Supplement B, specify which officials have approval or waiver authorities in procurement matters and implementation. Authorities redelegated by Regional AA's are specified in the Delegations of Authority issued to each Mission Director. The manner in which the responsibilities for project implementation may be exercised by missions is described below.

b. Mission Management.[6/] Regional and Central Office Delegations of Authority to Mission Directors, Controllers, Legal and Contract Officers give missions the authority to take or to approve implementation actions on behalf of AID. (In some cases, such delegated authorities can be redelegated to other officers within the Mission.) The overall responsibility for administering projects being implemented within the mission is that of the Mission Director. It is his/her responsibility to assign specific project administration, implementation and/or supervision duties to different offices and individuals within the mission and to supervise them in the performance of these duties. Mission Directors have considerable latitude in organizing their staffs. There is no prescribed pattern of organization for each mission because the size of missions, character of portfolios being administered and composition of mission staffs vary greatly. In addition to his/her supervisory role, the Mission Director (or individuals acting temporarily in that capacity) personally takes those actions related to

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6/The terms "Mission Management" and "Mission Director" are intended to apply equally to the management or principal officer of other field missions.

project implementation which cannot be redelegated to others. In most missions, particularly in the larger ones, the Mission Director appoints a Project Officer and a Project Committee to administer each active project, usually as early as the project development stage. The Project Officer is responsible for seeing that all necessary actions are taken when required even though the composition of the Committee may change over time to reflect expertise needed during project development, implementation and operations. Assigning singular responsibility has proven to be a successful device for ensuring that one person, the Project Officer, is familiar with the status of that project, supervises or coordinates all actions which AID must take to support implementation, receives all correspondence and documents relating to a project and prepares (or sees to it that others prepare) AID correspondence and documents required for AID supervision and administration of the activity. In smaller missions, the establishment of Project Committees may not be practical. In such cases, the purpose served by Project Committees can be achieved by ensuring that all necessary expertise, whether within or otherwise available to the mission is used, either by means of internal clearance procedures or by timely consultation with others, e.g., Regional Legal Advisors or Technical Specialists. The Mission Director has discretion in establishing procedures which will best meet the needs of a particular project and composition of a professional staff and resources. Notwithstanding, the resources necessary to adequately discharge administrative, implementation and supervisory functions must be made available to each project.

c. Project Officer. A Project Officer is designated by the Mission Director for each project for which the mission is responsible. The Project Officer Chairs the Project Committee and takes or coordinates all administrative and implementation actions for which AID is responsible and monitoring project implementation and operations activities. (The monitoring responsibilities of the Project Officer are described in Chapter 11.) The Project Officer should have professional experience in management, economics, finance, law, accounting, or other disciplines which may or may not be directly related to the nature of the project. A Project Officer may have specialized experience in one or more of these disciplines relevant to the type of project which is to be implemented, i.e., a professional or technical specialist in such fields as agronomy, public health, education or engineering. Although academic and professional background of a Project Officer is important, an analytical approach to problem solving, sensitivity to project dynamics, the ability to lead and coordinate and familiarity with AID requirements and procedures are of equal importance. The Project Officer may act, prepare an action, or assign (and then

coordinate/supervise) action responsibility to the member of the Project Committee best qualified to take or prepare a specific action. The formal designation of Project Officers and Project Committees is intended to fix first-line responsibility for implementation actions; it is not intended to create a separate organization within the mission structure. In larger missions, therefore, Project Officers and members of Project Committees work under and report to their supervisors in discharging project responsibilities rather than reporting directly to the Mission Director. It is often necessary to designate an individual as Project Officer or Committee Member for more than one project.

d. Project Committee.

(1) The Project Committee is used to ensure that appropriate organizational units within the Mission are kept informed of the project implementation progress; that they are consulted when their specific expertise is needed; and that administrative or implementation actions are taken by those best qualified to do so by virtue of their background, functional responsibilities and experience. Project Committees may include members from the mission's technical staff, Management Office, Program Office, Controller's Office, Engineering staff, a Capital Development Officer, the Legal Advisor, a Contract Officer and Commodity/Logistics Specialist. The composition of the Committee established for any given project depends on the type of expertise needed for its implementation, and on the size and composition of the mission's staff. Any member of a mission may be assigned to serve on more than one committee at a given time.

(2) The function of the Project Committee during implementation is to effectively perform all necessary administrative, direct support or supervisory functions associated with AID's project responsibilities and to take appropriate actions when problems or unforeseen opportunities arise. The Committee is chaired by the Project Officer, who is responsible for reaching decisions or recommending actions to his/her supervisor and/or the Mission Director, depending upon the mission's organization and authority structure. Members of the Project Committee perform their project functions on a staff basis, but otherwise operate within the established mission organization and report to their line supervisors. A difference of opinion between members of the Project Committee which cannot be resolved within the Committee are referred to the respective supervisors of those members and ultimately, if needed, to the Mission Director. The Project Committee can normally perform its function and operate effectively without formal meetings, providing communications and coordination are adequate. Committee members are nonetheless responsible for keeping themselves current on

project activities and to individually perform functions for which they are responsible in a timely and professional manner. Maintaining Committee awareness and coordinating contributions to the resolution of implementation problems can normally be effected through informal consultation and/or in the course of preparing and clearing action recommendations or implementation documentation.

e. Controller. A detailed description of Controller functions and responsibilities is contained in Chapter 8, Handbook 19. The Controller's functions relating to project implementation fall into four major categories: assistance in the development of financial plans for a project, assistance in the review of actions by the B/G which have financial aspects (e.g., contracts and financial reports), actions relating to the disbursement of AID funds, and project accounting. The Controller[7/] participates in project implementation either as a member of the Project Committee or in the exercise of duties assigned to him/her as a unit of the overall mission organization. More specifically, the four areas of participation by the Controller include:

(1) Review and approval of detailed financial plans and funding responsibilities, including the manner in which funds will be made available by the B/G and AID (financial instruments and payment procedures). The Controller should ensure that such plans are workable and compatible with AID procedures and requirements, e.g., AID's cash management procedures. In arriving at the necessary understandings, the Controller may be called upon to explain AID's financing requirements and payment methods to the B/G and to assist it in the preparation of plans and procedures. Controller staff will also assist the Project Officer assessing financial plans and other financial aspects as the project proceeds.

(2) Many implementation actions taken by the B/G have substantial financial elements; foremost among such actions are contracts between the B/G and contractors or suppliers. Service contracts, which are the result of negotiations rather than of public bidding, and some other contracts require an analysis of their cost elements and a review of payment provisions before AID can approve them. The cost analysis can be performed by a Project Officer experienced in such work, a Contract Officer (if available) or the Controller, but in many cases the Controller will be the only member of the mission staff with the expertise required for the analysis. The Controller should always participate in the review and approval of financing instruments and payment provisions cited in Invitations to Bid or contract documents.

(3) The Controller normally takes all actions to open financing instruments and direct disbursement of AID funds. He/she establishes, or requests that AID/W establish, Bank or Direct Letters of Commitment (L/Comm's), after voucher approval by the Project Officer, processes payment documentation for reimbursements to the B/G or for payments by AID to contractors and suppliers and makes direct disbursements when payment arrangements so require. Matters relating to disbursements usually do not require the participation of members of the Project Committee other than the Project Officer, Technical Specialist (e.g., Engineer) and Controller;

(4) Establishing and maintaining AID's project accounting system is a joint Project Officer-Controller responsibility. Central reporting of such data forms part of the Controller's overall responsibilities for keeping the Agency's financial records and books of account. Timely and accurate financial projections and disbursement records are important sources of information for monitoring implementation progress.

f. Legal Advisor.

(1) The Legal Advisor is a critical member of the Project Committee and his/her participation is required in connection with actions relating to the Project Agreement; Implementation Letters which interpret portions of the Agreement, e.g., the "Basic Implementation Letter" (see paragraph C3b); some waivers; reviews of Bid Invitations, bid awards, contract approvals and amendments, particularly when no Contract Officer is available. Legal advice is essential in reviewing the commercial terms of Invitations for Bid (because they will become part of the contracts based on the bids) and in approving contract awards (because contested awards not thoroughly reviewed are often the cause of lengthy delays. Legal advisors must be consulted and may have to clear on all actions and questions bearing on the rights and responsibilities of the parties under the Project Agreement and the interpretations of general "Bilateral Agreements" between the B/G and the U.S. Government. The Legal Advisor must also be involved in decision-making or any other project actions or situations which have potential legal implications for AID and the U.S. Government.

(2) Using the expertise of Regional Legal Advisors (RLA) who serve several missions requires the exercise of good judgment, first in deciding whether legal review and clearance is necessary in connection with any given action and, second, if such participation is found to be necessary, in finding the best way to obtain it. If the RLA is not at post and a visit cannot be arranged promptly, it is often possible to

obtain answers to specific questions by cable or comments by correspondence. RLAs must, however, be kept informed by the Project Officer about project activities and the development of situations which may require RLA involvement for subsequent participation by the RLA to be timely.

g. Other Mission Staff. The Project Officer should seek the advice of Mission staff other than the Controller and Legal Advisor wherever special knowledge and experience is needed and available, whether a Project Committee has been established or not. Management and Contract Officers, Procurement/Logistics Specialists, Engineers, Technical Specialists, Capital Development Officers, and Program Office staff are among the categories of personnel whose expertise in their respective fields should be used in connection with implementation actions to be initiated by the Project Officer.

6. Responsibilities of AID/W

a. General. The responsibilities of different units of AID/W in project implementation fall into three categories: taking those actions which have not been delegated to missions; backstopping project activities and taking specific actions requested by the missions, and monitoring general field implementation and administrative progress. Primary responsibility for coordinating AID/W actions rests with the Regional Bureaus. Other elements of AID/W, notably the Bureau for Management, Directorate of Program and Management Services (M/SER), the Office of the General Counsel (GC) and the Office of Financial Management (M/FM), participate in taking specific support and implementation actions and supervise the work done by members of the mission staffs who are assigned functional responsibilities in their respective areas of jurisdiction. (GC supervises the performance of Legal Advisors. M/SER supervises Contract Officers located in the field and M/FM supervises Controllers in their professional capabilities. All are subject to administrative supervision and assignment of responsibilities by the Mission Director within his/her immediate organization.)

b. Regional Bureaus

(1) Assistant Administrators in charge of each Regional Bureau (Regional AA) have the overall responsibility for all Agency activities carried out within the geographic limits of their respective regions. That responsibility covers supervising general portfolio administration, including project implementation, monitoring and support actions. The Regional AAs may redelegate project implementation

authorities covering nearly all implementation actions to Mission Directors. Exceptions are made for those which, under Delegations of Authority to Regional AAs, may not be redelegated and a limited number of specific approval or waiver authorities which are retained by the Administrator or other AID/W officials, e.g., Controller.

(2) The Regional AAs have retained for themselves "concurrent authority" to take implementation actions and have redelegated many of such concurrent authorities to the Directors of Offices within the Regional Bureaus. The AAs and those within their Bureaus to whom they have redelegated such authorities can thus act on behalf of the mission, in cases where action in AID/W is more practical in a given situation, without having to obtain specific authority for taking such action from a Mission Director, e.g., issuance of a waiver. Redelegations to Office Directors may also include authority to act for the AA in a supervisory or monitoring function.

(3) Day-to-day consultation between missions and AID/W regarding implementation actions or support is carried out directly between Project Officers and their supervisors in the field and the Offices in the Regional Bureaus to whom implementation authorities have been redelegated.[8]/ Direct consultations are also effected between field missions and Central Bureau offices retaining authority for certain approvals and waivers, e.g., SER/CM, SER/COM.

(4) The responsible offices in the Regional Bureaus have appointed Project Officers who function in the same capacity as Project Officers in the field and report to their respective Office Directors. Such officers are sometimes referred to as "backstop officers" or "Project Support Officers." AID/W Project Committees, established primarily to support and expedite AID/W project design, review and authorization activities, may be continued into the implementation phase to take actions or assist in the solution of problems which require expertise available in AID/W.

c. Directorate for Program and Management Services. The Deputy Assistant to the Administrator for Management (DAA/M) must be consulted by the Regional Bureaus in a number of approval or waiver actions, as specified in Handbook 1, Supplement B and Handbooks 11 and 13. The Offices within DAA/M which may be called upon to assist with contracting and procurement matters are the Office of Contract Management (M/SER/CM) and the Office of Commodity Management (M/SER/COM). The latter offices are action offices when "Direct AID Contract" procedures are used. (See paragraph C3c(5).)

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[8]/These offices are: AFR/DR, ASIA/PD, LA/DR, NE/PD and NE/TECH.

d. Office of the General Counsel (GC). Legal advice and approvals, most frequently given in connection with Agreement and contract approvals and changes (when appropriate to be made in AID/W) and associated with resolution of protests against proposed contract awards for services or commodities, is usually obtained from the Regional Assistant General Counsels and their staffs. In more complex cases and where Agency-wide policy is involved, other officers with GC or the General Counsel may participate in the review and preparation of the decision.

e. Office of Financial Management (M/FM). M/FM routinely takes action on all matters involving the preparation of financing instruments and disbursement of AID funds (e.g., establishment of Letters of Commitment and disbursements), unless the disbursement arrangements provide for action by the Mission or Regional Controller. M/FM also keeps the Agency-wide loan, project and nonproject accounts, using either its own records or reports submitted by Mission Controllers as the bases for accounting entries.

8C. Procedures and Documentation

1. Introduction

a. Since the implementation of practically all projects requires that actions be taken by the B/G and AID, the legal, regulatory and procedural requirements of both parties must be observed; otherwise, lengthy delays are likely to occur. This means that each party must understand the requirements of the other and that they jointly resolve any conflicts between respective requirements. B/G requirements relating to budget, financing, contracting and other matters are critically important to project implementation and must be examined and monitored closely. Detailed attention should have been given to all B/G and AID requirements during the project design and negotiations phases and accommodated in the initial implementation plan. However, because conditions and people change periodically, these requirements should be monitored. The most important procedural requirements to be reviewed periodically during implementation are summarized in paragraph 2 below.

b. It is equally important that the B/G understand applicable AID regulatory and statutory constraints which may not be subject to waivers (e.g., some source/origin conditions and cargo preference rules governing ocean transportation of commodities). These requirements, too, should be fully discussed with the B/G agencies at the earliest stages and specifically reviewed periodically as implementation proceeds.

2. B/G Procedures

a. General. Procedural requirements of B/Gs will vary from country to country and may vary from project to project since different B/G agencies may be involved. In addition, requirements within a single project may vary over time or be applied with varying degrees of consistency. The Project Committee therefore must be alert to changes. The procedural areas discussed in the following subparagraphs do not apply to all projects. They do, however, present a checklist of topics which should be reviewed during implementation and compared with plans and assumptions made earlier. Discrepancies or omissions should be addressed so as to avoid delays or procedural mishaps. Further, the listing should not be considered as necessarily complete; additional topics may require consideration during drafting or revision of the project implementation plan if the nature of the project or the B/G's legal and administrative structure so indicate.

b. Contracting

(1) If contracting is to be done by the Borrower/Grantee or the Agent, i.e., under Country Contracting procedures, conclusions must be reached on:

(a) the B/G agency to be responsible for contracting in most cases this is the Implementing Agency but sometimes another agency, such as a government-wide procurement agency (comparable to GSA in the U.S. Government) will be responsible;

(b) any conflict between the rules and procedures customarily applied by the Contracting Agency and AID's rules and procedures. Examples of conflicts which have occasionally arisen are (i) the consideration of price in the selection of contractors for professional services; and (ii) factors to be considered in the evaluation of bids (e.g., consideration of "other relevant factors," in addition to price, which are not stated in the Invitation for Bids). Conflicts may arise on other aspects of procurement and contracting procedures. A reconciliation of such conflicts should be attempted, in the first instance, by persuading the Contracting Agency to adopt procedures consistent with AID's "rules" (see Handbook 11, Section 2, Chapters 1-3, and paragraph C3c(4), below) for application to AID-financed procurement. There are only a small number of such rules, some of which are embodied, at least in general terms, in the Standard Project Agreement (e.g., approval of contracts, shipping, reasonable price, notification of potential suppliers and procurement source). Use of procedures other than those outlined in AID Handbooks, does not mean

a conflict with AID requirements as long as they embody the spirit of AID requirements. However, if there is a conflict and AID and the B/G are unable to reach agreement on the application of a specific AID rule, a waiver, if possible, of the rule can be considered. However, if AID does not feel that a waiver is justified and the rule sustained as appropriate, AID may exclude the element from its assistance package and require that the B/G finance the element with its own resources.

Procedural conflicts not affecting the application of AID rules can usually be resolved without resorting to waivers. It is, however, appropriate to examine any such conflict or proposed departure from AID's normal procedures in sufficient depth to conclude that the departure would not have undesirable implications for implementation of the project or conflict with other AID contracting or procurement policies.

(2) If AID undertakes to contract, the contracting procedures of the B/G do not come into play because AID contracts under its own procedures or, if another U.S. Government agency is requested to contract (usually for commodities), the procedures followed by that agency will be applied. The B/G may, however, have restrictions or established procedures in the areas of tax liabilities, finance (discussed below), logistical support of contractors (e.g., type of accommodations and furnishings provided) or commodity management (e.g., customs clearance or warehousing) which may affect the substance of contracts. Such procedures must be ascertained and agreed to and included in the Invitation to Bid on which contracting by AID will be based.

c. Financial Arrangements.

(1) Countries usually have established procedures which must be taken into account in planning and implementing the financial arrangements for the execution of a project. Among such procedures are those relating to:

-- the local currency budget, in particular the identity of the agencies involved in budgeting for the B/G's financial contributions to the project, when and to whom budget requests have to be submitted by the Implementing Agency, when and how budgeted funds will become available to the Implementing Agency for commitment;

-- Disbursements of B/G funds for the project, in particular the identity of agencies other than the Implementing Agency involved in the disbursement of funds and the procedures used in making disbursements;

-- Disbursement of AID funds, in particular the nomination of approval applicants (B/G banking entity) procedures for establishing Letters of Credit, nominating U.S. Banks to whom Bank Letters of Commitment are to be issued by AID, effecting working agreements (correspondent relationships) between the B/G's approved applicant and the U.S. Bank, including eligible banking charges, and other relevant procedures, including those defining participation of the recipient country's Central Bank or Finance Ministry in such transactions;

-- Accounting for project expenditures which, under the Standard Project Agreements, is a responsibility of the B/G; under this heading come procedures for the establishment and maintenance of accounts, the generalization and maintenance of appropriate transaction documentation to support the accounts and financial reporting.

(2) AID does not prescribe the procedures to be used by the B/G in managing the financial responsibilities it assumes in connection with a project, as long as they meet requirements included in the Project Agreement that books and records are maintained "in accordance with generally accepted accounting principles and practices consistently applied" (Section B5(b) of Standard Provision Annex to Loan and Grant Project Agreements). It is important, however, to reach explicit agreement with the B/G as to which procedures will apply to the project and how to satisfy AID requirements so that they can be included in initial implementation planning and effected during project implementation.

d. Reporting. In many cases, the B/G has established reporting systems for its own internal use. It is important for AID to ascertain the frequency, content and format of reports required to be prepared under such systems and compare them with AID reporting needs for the project. Maximum use should be made of existing B/G reports and their timing adjusted and/or amendments made thereto to satisfy AID reporting requirements. Unnecessary duplication, and the resultant waste of B/G efforts, can thus be minimized.

3. AID Procedures and Documentation

a. Introduction

(1) Procedures established by AID, and the documentation requirements related to them, affect the implementation of bilateral projects in three of the major functional areas discussed earlier, i.e., Contracting, Financial Management and Training. AID's requirements and procedures in these areas are set forth in the following Handbooks:

-- Contracting

Handbook 1B (Procurement Policies) contains AID's policies governing the procurement of goods and services for all AID programs; the programs covered in each chapter are indicated, and it is, therefore, clear whether bilateral projects are subject to any given policy or not;

Handbook 11 covers Country Contracting under Project Assistance; it applies to bilateral projects whenever contracting is being undertaken by the B/G or its commercial agents and reflects the policies contained in Handbook 1B;

Handbook 12 covers the use by AID of other Federal Agencies and applies to bilateral projects to the extent other Federal Agencies are providing goods or services to the project;

Handbook 14 contains the procurement regulations applied by AID to its own contracting ("AID Direct Contracts"); it is used by Contracting Officers for bilateral projects in which AID has assumed contracting responsibilities;

Handbook 15 contains regulations applying to all AID-financed commodities and supplements procedural requirements included in Handbook 11.

-- Finance

Handbook 19 covers all aspects of AID's Financial Management; some parts of that Handbook are directly relevant to the implementation of bilateral projects.

-- Training

Handbook 10 contains regulations and procedures applicable to AID-financed training of B/G personnel conducted outside the recipient country ("Participant Training").

(2) There are no other Handbooks setting forth procedures or documentation requirements for other aspects of the implementation of bilateral projects. There are, however, other requirements outlined in chapters of this Handbook 3.

(3) From the discussion in Section B of this chapter, it is clear that AID's role in Project Management is generally focused on assisting the Implementing Agency in its performance as Project Manager, in guiding and approving certain actions it must take, and to promoting a full understanding on the responsibilities of each party including the adherence of each to the other's requirements, as appropriate; AID's contribution to Project Management is greatly enhanced by effective communication with the Implementing Agency. It is, therefore, discussed under that heading in subparagraph b, below. Subsequent subparagraphs deal with procedures relating to Contracting (subparagraph c), Financial Management (subparagraph d), Training (subparagraph e) and Reporting (subparagraph f).

b. Communications with the B/G

(1) Form of Communications

Because many communications addressed to the B/G deal with matters which are critical to prompt and efficient implementation of the project and, therefore, should be brought to the specific attention of those responsible for project management. AID has adopted a format for such communications which is both formal and standardized. That format is the Project Implementation Letter (PIL). Responsibility for preparation of PILs, their uses and distribution is explained below; additional guidance regarding the preparation of PILs is provided in Appendix 8A to this chapter. In cases where the use of a PIL is not indicated, less formal or informal communications are used, including letters, memoranda, telephone conversations and, most importantly, meetings with one or more persons having responsibilities in preparing or taking actions on behalf of the B/G. Such persons may be on the staff of the Implementing Agency or of another B/G agency having collateral responsibilities in the implementation of the project.

(2) Addressing of Communications

PILs must always be addressed to the person or agency designated by the B/G in the section of the Project Agreement entitled "Communications" (Section 9.2 of the Project Loan Agreement and Section 8.2 of the Project Grant Agreement). This is necessary to ensure that the advice or notice contained in the PIL will be "deemed duly given" as provided in the cited clauses of the Project Agreement; it will also serve to establish a central point in the organization of the B/G from which actions to be taken by the B/G can be controlled and monitored. In some cases, two or more agencies are nominated by the B/G as recipients of communications or should be kept informed about actions

taken or to be taken (e.g., the Implementing Agency and the Finance Ministry or Planning Ministry); in such cases, the PIL must be addressed accordingly. Less formal communications may be addressed to the person or agency directly responsible for action or to whose inquiry the communication responds.

(3) Responsibility for Preparation

All communications on implementation matters are normally prepared in the mission which has responsibility for the project. Any communication to the B/G issued by an office in AID/W should normally be transmitted to the B/G through the mission; in any event, a copy of the communication should be sent to the mission. PILs are always prepared by the mission. Within the mission, communications are prepared either by the Project Officer or another member of the mission staff best qualified to deal with the matters to be communicated. Clearance of PIL's by a Legal Advisor should be obtained whenever matters having legal implications are to be communicated to the B/G. Such matters include, but are not limited to, the acceptance of documentation submitted by the B/G to meet Conditions Precedent to Disbursements, approval of contracts (particularly if the contract award has been or is likely to be contested), modifications of the Project Agreement and Chapter 13) and the interpretation of the Project Agreement, as in the "Basic PIL" (see below). It recognized that clearance of PIL's by a Legal Advisor may present difficulties if the Advisor servicing the mission is stationed at another post. In such cases, it is, however, usually possible to obtain his/her clearance or comments on a proposed action by cable exchange or, if time permits, by mail or pouch. Judgment will have to be exercised in deciding whether and in what manner legal advice is necessary in a specific case and under given circumstances. Which persons or offices should clear communications, and who signs them, depends on the internal procedures established by the Mission Director.

(4) Use of PIL

(a) Simultaneously with the Agreement to be negotiated or as soon as possible after signature of the Project Agreement, the mission issues Project Implementation Letter No. 1, commonly referred to as the "Basic Implementation Letter" or "Basic PIL." Subsequent PILs are serially numbered to permit control and identification. The Basic PIL gives the B/G more detailed guidance on matters covered in the Project Agreement. It explains specifically what documents are to be submitted to satisfy the Conditions Precedent set forth in the Project Agreement, including the format of the Legal Opinion to be submitted; it

spells out contracting and purchasing procedures and source/origin rules; it provides specific information on disbursement procedures; and it specifies what reports AID requires, defining their frequency, format and content, etc. All these matters are discussed in detail in Appendix 8A.

(b) Because the B/G will be required to act promptly on some of the matters discussed in the PIL, particularly on meeting Conditions Precedent and contracting for services (if they are required at the start of the project), it is recommended that those subjects be discussed with the B/G in detail even before the Project Agreement is signed. It is desirable that the Basic PIL be prepared in draft shortly after the Project Paper is completed; this would allow detailed discussions with the B/G during the interval between completion of the Project Paper and signature of the Agreement. The Basic PIL should be negotiated simultaneously with the Project Agreement although it will probably be negotiated with a lower, working level within the B/G agency, e.g., with the B/G project management group.

(c) Subsequent PILs are used to document approvals by AID of actions or intended actions by the B/G, notably in connection with contracting and with recording such changes in the Project Agreement as can be made without formally amending it; these are changes in all clauses of annexes which contain the words "except as AID may agree otherwise." Clauses not containing those worlds can only be changed by a formal amendment of the Agreement. (See also Chapter 13, "Project Modifications.")

(d) In some missions it has been the practice to have the B/G countersign all PILs or at least some containing guidance to the B/G. Requesting countersignature is a good device for making sure that those B/G officials whose signatures are required on official communications to AID have become familiar with the contents of the PIL. The practice is, therefore, recommended for all PIL's which relate to actions the B/G must take in the future or which require the B/G's agreement. As an alternative, separate acknowledgements of the receipt of the PIL can be used. The management of each mission should review this question and establish the procedure best suited to the local circumstances.

(e) PILs frequently deal with subject matter which require the professional expertise of members of the mission staff other than the Project Officer. The "Basic PIL" is always in this category. Mission management should, therefore, establish procedures for clearing PILs by the Controller, Legal Advisor, Technical Specialist, Procurement Specialist or Contract Officer, etc.

(5) Distribution of PILs

The standardization of formal communications which the PILs represent has an advantage not previously mentioned. Some, but by no means all, PILs constitute a record of actions taken or to be taken by the mission and B/G agencies directly involved in the implementation of projects. They are also used in AID/W as a basis for action, primarily in the financial area and for record purposes. The standard format permits easy identification and proper routing and handling within AID/W. For example, a PIL in which the B/G is informed that AID has accepted documents submitted to meet Conditions Precedent is needed by FM before it can issues such financial documents as Letters of Commitment or establish Disbursement Authorizations. (Cable advice that a PIL has been issued is sometimes sufficient for taking action, but copies of the PIL must be submitted subsequently for record purposes.) PILs should, therefore, be distributed as follows:

-- to the addressee(s);

-- to any other B/G agency that may be involved;

-- to persons or offices within the mission designated by the Mission Director;

-- to AID/W in accordance with procedures established by the Regional Bureaus for missions in their respective geographic areas. (Bureau practices vary, but all provide for copies to be sent to FM.)

(6) Identification of PILs

PILs are prepared on mission letterhead stationery; the number and title of the project to which they refer are shown; for loan-financed projects, the loan number is usually cited rather than the project number. The PILs for each project are serially numbered by the Project Officer.

c. Contracting and Procurement

(1) Introduction

Most projects involve contracting for services and the procurement of commodities. Professional services are often the major element of bilateral projects and in many projects professional services must be obtained to enable the B/G to start the implementation process.

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Contracting for professional services is, therefore, an implementation task which requires thorough planning during project development and close attention in the initial phase of project implementation. The procurement of most commodities (with the possible exception of vehicles or equipment needed by the contractor supplying initial professional services) usually follows the contracting for key professional services, but often represents a substantial workload both for the B/G and AID over an extended period. Contracting and procurement are critically important functions in most projects. Project officers must have at least a working knowledge of the alternative methods by which services and commodities needed for a project can be acquired and of the rules and procedures which apply to each of those methods, even though specialists may be available to do much of the work required.

This section contains a discussion of the most important AID policies, rules and procedures governing contracting and procurement; that discussion is, however, not exhaustive and therefore contains numerous references to other Handbooks which deal with a given subject in greater detail. In the text which follows, the term "contracting" is used, unless the context indicates otherwise, to cover both contracting for services and procurement of commodities, even though the document used for the procurement of goods may be called a "Purchase Order" rather than a "Contract."

(2) Methods of Contracting

"Mode of Contracting" is the term used to distinguish between Country Contracting and AID Direct Contracting. (See Appendix 3H.) There are, however, other distinctions between methods of contracting, subsidiary to that basic distinction, primarily applicable to the procurement of commodities. A B/G, having assumed responsibility for Contracting, may designate the Implementing Agency or another agency of its government as Contracting Agency, or it may contract for procurement services with a procurement agent. The Procurement Agent may be a firm supplying only procurement services (a "Purchasing Agent" in commercial usage) or may be the firm or institution retained primarily to provide professional services; in the latter case, we speak of "procurement by the Contractor." Similarly, when the USG is responsible for procurement, AID may use its own staff, usually in the field, or another U.S. Government agency. Another distinction between methods of contracting is based on different ways of arriving at a contract, i.e., of selecting the contractor and agreeing on a contract. A contract can be the result of formal bidding, competitive negotiation or sole source negotiation.

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(3) Contracting Mode

(a) AID's policy on the selection of a suitable contracting mode is set forth in Handbook 1, Supplement B, and Appendix 3H to this Handbook. These references provide guidance relating to the review of procurement and contracting requirements represented by a particular project and an assessment of B/G capabilities to undertake such activities. While AID prefers that the B/G and/or its agents do their own procurement and contracting for project goods and services, AID recognizes that project circumstances and/or the capacity of the B/G may be such that it would be advantageous for AID or another U.S. Government agency to perform such functions for the B/G.

Whatever the results of the USAID's analysis and the decision by the Director to have procurement undertaken by the B/G, its agent and/or AID, such analysis and the decision shall be documented in the official project files.

This assessment and determination by the Mission Director may be part of the PID or PD documentation or, if made subsequent to the preparation of the PP, should be recorded in a separate memorandum, signed and retained within the contracting section of the official project files. Where contracting is to be undertaken by an AID/W office, e.g., M/SER/CM, prior consultation thereon should be effected by the USAID, followed by appropriate implementation documentation, e.g., if a direct contract for services, a PIO/T. The use of socially or economically disadvantaged firms under Section 8(a) of the Small Business Act, the use of GSA or other USG entities should likewise be preceded by appropriate consultation and be effected through such procedures and documentation as are required by Handbooks 1B, 14 and 15.

(b) The operationally important difference between the two contracting modes is that AID is a signatory to the contract under Direct AID Contracting and assumes all the legal and financial responsibilities flowing from that fact. Under Country Contracting, the B/G's Contracting Agency signs the contract and assumes the responsibilities under the contract. AID is not a party to the latter contract, but may approve the contract or have certain rights under it, e.g., diversion rights to approve modifications, changes in contract budget or of the contractor's key personnel. (In this context, see Handbook 11, Chapter 1, and the corresponding paragraphs in Chapters 2 and 3 of that Handbook. These paragraphs describe a clause which must be included in all AID-financed contracts to ensure that AID is not liable under Country Contracts by virtue of being given certain rights under the contract.)

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(4) Country Contracting

(a) The rules relating to Country Contracting are set forth in Section 2 of each of the first three chapters of Handbook 11; they are summarized in this paragraph. There are relatively few rules, as follows:

-- Approval of the contract by AID: AID must approve all contracts valued at more than $100,000, including any local currency portion. In the procurement of construction services (Handbook 11, Chapter 2, and of equipment and materials (Handbook 11, Chapter 3), the Invitation for Bids (IFB) for contracts estimated to exceed $100,000 must also be approved;

-- Contracting method: Contracts for professional services must be negotiated (rather than bid); all other contracts must be based on formal competitive bids, except as provided in Chapters 2 and 3 of Handbook 11;

-- Competition: Contractors for all types of contracts must be competitively selected, except as provided in Handbook 11;

-- Nationality and Source (Note 9: See Handbook 11, Chapter 1, paragraphs 2.6; Chapter 2, paragraph 2.5; and Chapter 3, pararaphs 2.6 and 2.7.); contractors for all types of contracts must meet the criteria established in Handbook 11 for the eligibility of contractors and be from a country made eligible by the Project Agreement; commodities supplied under any type of contract must, in addition, meet the criteria established in Handbook 11 for the eligibility of commodities and have their source and origin in a country made eligible by the Project Agreement;

-- Special eligibility criteria for contractors: There are a few restrictions, set forth in Handbook 11, on the eligibility of contractors, other than their nationality;

-- Some additional rules concerning language and specifications, prohibition against some types of contracts, reasonableness of price and clauses that must be included in contracts are also spelled out in Handbook 11.

(b) Rules can be waived if, and to the extent, indicated in Handbook 11 and by the official there specified. Rules for which no waiver authority is specified cannot be waived.

(c) Within the framework of the rules discussed above, there is considerable latitude for establishing contracting procedures best suited to the experience and capability of the Contracting Agency and the number and type of contracts to be awarded for the implementation of a particular project. The matters to be considered in establishing the procedures for a project are discussed in Section 3 of each of the first three chapters of Handbook 11; they include:

-- the type of contracts to be used, i.e., cost-reimbursement, time-rate or lump-sum;

-- the approvals, in addition to those required by the rules, to be obtained from AID, e.g., of the scope-of-work for service contracts, the list of prequalified contractors, the evaluation of proposals and bids, etc.;

-- the method of payment to be selected for any given contract;

-- whether contractors are to be prequalified;

-- when and where prospective procurements are to be advertised;

-- how proposals for professional services are to be evaluated;

-- preparation of a draft contract.

(d) All of these matters should be discussed with the Contracting Agency in detail as early as possible in the project cycle because a decision to adopt a combination of alternatives can have a substantial effect on the implementation schedule. If, e.g., contractors are to be prequalified, sufficient time for that step must be included in the schedule (normally two to three months; nevertheless, prequalification of contractors is a widely used procedure because if tends to save considerable time in subsequent steps of the contracting process). The agreement with the Contracting Agency on detailed procedures to be followed is normally documented in an Implementation Letter, preferably in the Basic PIL.

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(e) If the B/G designates a contractor as its procurement agent, the rules and regulations discussed above must be followed by that agent, whether it is a contractor for professional services or a contractor performing only procurement services. (See Handbook 11, Chapter 3) The contracts between the B/G and the contractor for procurement services are subject to the same rules as those for other types of services.

(f) Documentation. As mentioned in subparagraph 3c, above, the agreement on the contracting procedure to be used for the implementation of a project is recorded in a PIL. Individual actions by AID relating to the contracting process must also be recorded. The approval of contracts should be documented in a Contract Approval Memorandum prepared by an officer who has carried out, or substantially participated in, the review of the contract. The Memorandum should be signed by the Mission Director or a person to whom he/she has delegated contract approval authority. Contracts reviewed in AID/W are approved by the responsible Office Director or his/her designee in accordance with authorities delegated by the Regional Assistant Administrator. The Memorandum should demonstrate (i) that contracting was conducted in accordance with the rules in Handbook 11 and, if any of these were waived, recapitulate the reasons for waving them or refer to an attached copy of the waiver action memorandum; (ii) the reasonableness of the contract price; (iii) describe what issues, if any, arose during award and negotiation (in the case of negotiated contracts) and how they were resolved; and (iv) describe how protests, if any, lodged during the contracting process have been resolved. The Memorandum should be prepared in sufficient detail to be useful as a record of the contracting process and of the decision by the B/G to sign, and by AID to approve, the contract. All staff members who participated in the review of the contract should clear the Memorandum. The Regional Bureaus may require submission of one or more copies of the Approval Memorandum to AID/W for information and record purposes; the signed original should be filed in the mission's project file or a subsidiary contract file if the material relating to a contract is too voluminous to be included in the main project file.

The approval of intermediate steps, such as agreement on the evaluation of proposals submitted by potential contractors for professional services or approval of a contract award proposed by the Contracting Agency, may be recorded in an informal communication to the Contracting Agency but the approvals of all contracts exceeding $100,000, should be recorded in a PIL or comparable communication to ensure that all parties concerned within the mission and in AID/W are routinely furnished copies needed for subsequent action by AID, e.g., opening of Letters of Commitment, or for information purposes.

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(5) Direct AID Contracts

(a) If AID enters into contracts for services or commodities, the rules and procedures in Handbook 14 (Procurement Regulations) apply; contract-level grants between AID and another party are subject to the provisions of Handbook 13, and agreements with other U.S. Federal Agencies are subject to the provisions of Handbook 12. Only persons formally designated as AID Contracting Officers or given specific authority for contracting are authorized to negotiate or otherwise award contracts and to sign them or other documents used to obtain services or commodities. Contract officers may be stationed in Washington or in the field; those stationed in the field operate under special Delegations of Authority issued by the Director of M/SER/CM which specify the maximum amount which they are authorized to obligate under any one contract. Such Delegations may also be made to Mission Directors. Information on AID contracting which is useful to project officers is presented in Chapter II of the "Project Officers' Guidebook for the Management of Direct AID Contracts and Grants" ("Guidebook"). A few points are highlighted in the following paragraphs.

(b) Most direct contracting by AID is for professional services but exceptionally AID may also contract for commodities. In either case, the Contracting Officer must be given precise information on the scope of the services, or the specifications of the commodities, for which he/she is to contract. That information must be provided by the mission or AID/W office involved and should be agreed to by the Implementing Agency. Detailed guidance on the preparation of Scopes of Work for services is contained in Appendix C to the "Guidebook" referred to above.

(c) In planning for contracting by AID, it is important to keep in mind that the contracting process requires an average of 90 to 150 days from receipt of the PIO (see (d), below) to award of a contract. For practical purposes, it is advisable to use not less than 150 days as the period required between issuance of a PIO by the mission and contract award by AID/W to allow for transmission time and answering questions that may arise. That period does, however, not allow for the processing of waivers, e.g., for proprietary procurement.

(d) Special attention should be given to arrangements that are made for logistical support of contractors. Such arrangements for office space, housing, vehicles, drivers, clerical or professional assistance and other administrative and logistical support are often made by the borrower/grantee (B/G). However, there are occasions when

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AID must make provisions for such logistical support. These provisions must be reflected in any contract to which they are relevant (primarily technical assistance contracts, i.e., PIO/T's). Below are instructions for clearance of all PIO/T's anticipating the use of AID logistical support in AID/W and overseas:

(1) In AID/W, M/SER/OP must clear with the Director of M/SER/MO all PIO/T's which anticipate the use of AID/W facilities and/or personnel prior to authorization.

(2) PIO/T's initiated overseas which anticipate the use of mission facilities, personnel or other logistical support will be cleared with the Mission Executive Officer.

(3) Geographic Bureau and Mission clearance, is required on all PIO/T's initiated in AID/W for implementation overseas.

(e) Documentation. Two documents are used to request contracting actions, the Project Implementation Order-Technical Services (PIO/T) for professional services and the Project Implementation Order-Commodities (PIO/C) for commodities. The same documents are normally countersigned by and used to record agreement by the B/G to the contracting arrangements, including the Scope of Work or Specifications. Instructions for preparing a PIO/T are contained in Attachment A to Appendix C of the "Guidebook." Guidance for preparing PIO/Cs is contained in Handbook 15, Appendix D7. PIOs are prepared either by the Project Officer or a member of the Project Committee and cleared by other persons or offices within a mission in accordance with mission procedures. If issued in AID/W, they are prepared and cleared in accordance with procedures established by the geographic Bureau and signed by an officer with authority to do so has been delegated.

d. Financial Management

(1) General. AID's procedures relating to the financial management of projects fall into two categories of which one, accounting and financial reporting, is the responsibility of the Mission Controller and the Office of Financial Management in AID/W. Other regions or offices in the field and in AID/W are involved in assisting this function, i.e., by periodically providing, on request, such information as they may be in a position to contribute and reports generated through implementation and monitoring tasks assigned to them. The other category of financial procedures relates to the disbursement of funds made available by AID for a project; those procedures directly affect project implementation and are, therefore, of great importance to all personnel having responsibilities for project implementation.

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(2) Disbursement Methods

The various methods of disbursing AID funds are described in Appendices I and J to Chapter 3.

(3) Payment Documentation

(a) General. Invoices, bills, statements or any other documents which are authorized for payment, including progress and final payments will be paid in accordance with contract terms. Checks will be scheduled for issuance, mailing and payee receipt as close as administratively possible to the due date in the invoice, contract or other agreement. Wire transfers will be made where possible. Payments will not be made on invoices prior to receipt of goods and services except as provided for in the contract approved by AID (e.g., mobilization or progress payments). AID will take advantage of cash discounts on direct contracts whenever possible.

(b) Under AID Direct Contract and Grants, contractors and grantees submit billings on U.S.G. Standard Form (SF) 1034, "Public Voucher for Purchases and Services other than Personal," accompanied by required supporting documentation. Supporting documentation varies but as in each case specified in the contract or grant. The contract or grant specifies line item budget categories and/or the particular billing format which the grantee or contractor has agreed to follow when submitting billings. A certification by a responsible official of the contractor or grantee (named in the contract or grant) supports the documentation. (See Handbook 19, Chapter 3 for details.)

(c) Country Contracts must specify the documentation required to be submitted for payment. Generally, contracts require an SF-1034, the contractor's invoice in a specified number of copies, the "Contractor's Certificate and Agreement" (Form AID 1440-3) or "Suppliers' Certificate for Project Commodities" (Form AID 1450-4) and, where applicable, evidence of shipment. Further details on documentation for payments and related certifications can be found in Chapters 1, 2 and 3 of Handbook 11 and in Chapter 3 of Handbook 19.

(d) Administrative Approval of Vouchers. The Project Officer is deemed to be the AID official who is most familiar with projects assigned to him/her. He/she is, therefore, required to "administratively approve" certain vouchers to give the "Authorized Certifying Officer," a member of the Controller's staff, a basis for his/her certification of a voucher for payment. The type of vouchers

exempted from the requirement of administrative approval are described in detail in a Circular Telegram (State 286425 of November 2, 1979) which will be incorporated into Handbook 19. For easy reference, it is included as Appendix B to this chapter.

e. Reporting

(1) B/G Reporting

(a) AID normally requires reports from the B/G's Implementing Agency on progress made in the implementation of a project and may require several types of reports dealing with different aspects of implementation or for different time periods. For all projects involving the ocean shipment of AID-financed commodities, a "Quarterly Shipping Report" is required by the Transportation Support Division of M/SER/COM, which monitors compliance with the "shipping" clause in the Standard Provisions Annex to the Project Agreement. Progress Reports are usually required on a quarterly basis. Monthly reports may be highly desirable for particularly complex projects. Projects implemented by privately owned or mixed commercial entities or by government-owned entities operated on a profit-making basis usually require separate reports reflecting the financial situation of the entity; such reports are always required when the Project Agreement or a subsidiary agreement contains financial covenants, such as the maintenance of a debt/equity or current ratio or of a minimum working capital level. The reporting frequency and the reporting format for progress reports and the format for any additional reports must be adapted to the nature of the project and its constituent elements. These should be thoroughly discussed with the Implementing Agency and then formally established in a PIL, normally the Basic PIL. The B/G's implementing agency should use the Training Cost Analysis system in reporting the participant training component of any project.

(b) The reports required should be kept to the minimum necessary for monitoring purposes. To the maximum extent possible, reports which the Implementing Agency is required to prepare for its internal use or for other B/G agencies should be used. Reports prepared by contractors for the Implementing Agency may be used if the latter accepts them as accurate and complete information on the points to be covered and submits them to AID for the purpose of meeting its own reporting requirements. See Chapter 11, Monitoring, for additional details.

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(c) In establishing reporting requirements, the need for the periodic collection of data on the institutional, economic and social effects of a project must be considered. Such data are generally required for monitoring and evaluation of projects for which "baseline" date have been collected because such data would have little value without followup.

(2) Internal AID Reporting. There are no standard requirements for internal reporting within AID, except for certain financial reports which the Mission Controller submits to M/FM in Washington and reports specified in Handbook 10 for submission to the Office of International Training. The geographic Bureaus and Mission Directors have, however, established reporting systems designed to help them meet their responsibilities in supervising project implementation. Such reporting and suggested formats are discussed in Chapter 11.

f. Training

(1) General. Training may be arranged by the B/G in its country, by the B/G through a contract under which the contractor assumes responsibility for training locally or outside the B/G's country or by AID for training the U.S. or in third countries. Although AID may finance any of such training as part of a project, it has established detailed procedures only for training arranged by AID in the U.S. or in third countries ("participant training"). Those procedures, and AID's general training policies, are set forth in Handbook 10, Participant Training.

(2) Procedures and Documentation. Training to be conducted in the U.S. must be requested for each trainee ("participant") on a Project Implementation Order-Participants (PIO/P) for action by the Office of International Training (S&T/IT) in AID/W. Because that office requires substantial leadtimes for arranging training, from 60 to 150 days, depending on the type of training (see Section 12C, Handbook 10), implementation plans must be developed well in advance of the period during which the training is to take place. Training Officers are frequently assigned to missions with large training programs. They should be consulted and will normally handle the procedural details involved. When a Training Officer is not available, familiarity with the numerous procedural requirements in Handbook 10 is essential for Projects Officers overseeing activities which include participant training as an element.

APPENDIX 8A

GUIDANCE ON THE PREPARATION OF IMPLEMENTATION LETTERS

A. Nature and Purpose of the Basic Implementation Letter

1. The basic Implementation Letter sets forth:

a. specific AID requirements which the Borrower/Grantee is required to meet;

b. the mechanism and procedures to be followed in the course of accomplishing the activity; and

c. the documents and reports which the Borrower/Grantee must furnish to keep AID fully informed of physical progress, current financial status, continuing compliance with the provisions of the Agreement, and actions that might be required or problems affecting the activity.

2. Normal Coverage of the Basic Implementation Letter:

The sequence of the provisions of the Basic Implementation Letter usually follows that of the Project Agreement. The topics may be rearranged, or divided among several initial PILs, if necessary to improve presentation and use of the material. The subjects noted below are typically covered in the Basic Implementation Letter :

-- Explanation of Conditions Precedent and a description of actions or informational requirements needed to satisfy each condition.

-- Identification of project principals, including official signatories.

-- Guidance on initial planning and organizing for project activities to be compatible with AID procedures.

-- Confirmation of agreement as to procurement systems and methods to be utilized by the Borrower/Grantee or its agent.

-- Explanation of AID source/origin and shipping clauses, including prior consultations and approvals, as appropriate.

-- Description of documentary and procedural requirements prior to establishment of financing mechanisms.

-- Specification of documentation flows and periodic progress reporting necessary for project monitoring.

-- Transmission of standard AID guidance (e.g., marking requirements, Geographic Codes, Chapters from Handbook 11, Country Contracting, etc.) needed by Borrower/Grantee for project management.

3. Standard provisions have been developed covering some of the foregoing subjects and an illustrative set of these provisions is provided in Supplement A to this Handbook. (Many missions have routinely copied these annexes and attached them to the Basic Implementation Letter. While this has the advantage of reducing the text of the Basic Implementation Letter to a more manageable size, it should be noted that the annexes are not project, country or B/G specific and they should therefore be reviewed carefully and modified as necessary before being included as an attachment to the basic PIL.)

4. The major provisions of a Basic Implementation Letter are outlined below:

a. Introductory Paragraph -- This may typically provide: "Dear _____:

This letter sets forth the procedures for utilization of the proceeds of the Loan/Grant and provides information to assist you in implementing your (project) (program) in accordance with Project Agreement Nothing in this letter or its attachments should be construed as modifying the Project Agreement or any of its provisions herein referred to or explained. This letter and the attachments may be supplemented or modified by subsequent Implementation Letters as necessary, and to meet special situations that may arise."

b. Conditions Precedent -- Every effort should be made to assure that key actions and arrangements by the Borrower/Grantee, which do not depend on its having the assurance that AID funds are firmly available, are completed before the activity is approved for financing by AID. To the extent that Borrower/Grantees take actions before the approval stage, which otherwise would be made conditions precedent to disbursement, the time lag between obligation of funds and disbursements for work underway will be reduced.

The following list includes conditions precedent applicable to the various types of project activities. It does not, however, purport to cover every type of condition that AID may find it advisable to impose prior to disbursement of funds. Particularly in connection with infrastructure projects, conditions precedent may be listed in the Project Agreement in two separate sections:

-- conditions precedent to the first disbursement (e.g., for costs of consulting services), and

-- conditions precedent to later disbursements (e.g., for procurement and construction).

When conditions precedent are self-explanatory as stated in the Agreement, the Implementation Letter need not restate the requirement, but may merely refer to the appropriate section of the Agreement. For other conditions, the Implementation Letter should contain information and instructions which make clear to the Borrower/Grantee exactly what is required of it by AID under each provision of the Agreement. Guidance for such provisions is outlined below. (NOTE: The "Attachments" referenced are part of M.O. _____ which will be revised and included in a supplement to this handbook.)

[1]. Legal Opinions and Supporting Documentation

An outline of information to aid Borrower/Grantee's counsel in preparing such opinions (and Guarantor's legal opinion if required under a loan) is transmitted with the sample letter as an attachment (See Attachment A).

[2]. Letter of Information

This is used where the Borrower is a private firm or a revenue-producing public entity. The information sought is specified in an attachment (See Attachment B); the written reply to which contains the necessary representations and warranties.

[3]. Designation of Borrower/Grantee Representatives

The Borrower/Grantee will identify functions and designate the organizational entities responsible therefor. It will also name the individuals responsible for and authorized to carry out the specified functions. Authenticated specimen signature (in three copies) is required from each individual designated as a representative.

[4]. Availability of Borrower/Grantee Contribution

Where the Agreement requires a contribution by the Borrower/Grantee, AID will prescribe the nature of "evidence" called for by the Agreement. For example:

The Borrower/Grantee (in the public sector) agrees to obtain the necessary, but possibly unspecified, amount of its own resources to carry out a complementary activity or undertakes to furnish "whatever resources" may be necessary to complete the activity. When this depends on future appropriations by a legislative body, the only realistic "evidence" it may be possible to obtain, as a condition

precedent, is its, or its Government's [as a Guarantor to the Agreement] assurance that appropriate action will be taken to include the required contribution in the budget. It should be stated in the Implementation Letter that compliance with this assurance will be verified during implementation in accordance with language included in the Covenants Article of the Agreement. If this approach is used, the part of the Implementation Letter dealing with required "Reports" should specify the manner and timing of "evidence" needed regarding the contribution. At the other extreme, the Borrower/Grantee, if either a private entity or a revenue-producing public entity, may undertake to make its contributions in a specified amount in the course of carrying out the activity. In such a case, the Implementation Letter will describe the documentary "evidence" required, and may refer to the disbursement procedures which provide a for a "pari-passu" contribution by the Borrower/Grantee with each disbursement by AID.

[5]. Report on Fees and Commissions

A reference to the appropriate section of the Agreement is usually sufficient. Guidance may indicate the type of information required to monitor this condition. If no commission or fee has been paid, or agreed to be paid, the Borrower/Grantee should furnish AID a statement to that effect.

[6]. Arrangements for Management Services

Where arrangements to obtain certain specified management skills are to be made after execution of the Agreement, evidence is to be given covering the selection of a qualified firm and negotiation of an acceptable contract. Further, unless previously provided (in which case reference to such action should be made here for the record), the scope and minimum requirements to be covered by the contract should be described to the Borrower/Grantee. Submission of proposed contract for AID approval is usually requested, along with a requirement for copies of the signed instrument.

[7]. Evidence of Organization, Staffing and Rules and Regulations

Where a new intermediate credit institution is involved, in addition to item 6, the entity must furnish specific details showing capacity to put into operation, and successfully operate, the institution for which the loan or grant is made. This will include a copy of its proposed standard form of loan agreement to sub-borrowers. Other organizational units shall supply similar operational charters or procedures.

[8]. Employment of an Independent Public Accounting Firm

This will apply to private borrowers and to revenue-producing public entities unless, in the case of the latter, AID is satisfied that existing governmental audits will yield the results desired as to scope and frequency of audit. Appropriate attachments describing the selection of the firm (see Attachment C) and the scope of the audit to meet AID requirements (see Attachment D) must be provided.

[9]. Arrangements for Funds, Organization, Manpower and Equipment to Maintain the Facility

In the event that AID approval of financing precedes the completion of key actions or arrangements affecting the execution of the proposed activity, these may be incorporated in the Agreement as conditions precedent to disbursement. In such instances, this paragraph of the Implementation Letter will identify and describe what evidence AID will require to verify compliance with such conditions.

[10]. Arrangements for Consulting Engineering Services

This is to be treated in the same manner as paragraph 6, above. Similarly, if this information was previously furnished, record such actions here, by way of official confirmation. Request submission of proposed contract for AID approval and, ultimately, submission to AID of a given number of copies of the signed contract.

[11]. Additional Conditions Precedent to Disbursement for Procurement and Construction

As appropriate, spell out the following, as requiring completion and/or prior approval by AID:

(a) Detailed plans and specifications;

(b) Arrangements for such things as i) Preparation of Bid Documents and of Bidding Procedures; and ii) Procurement of Goods and Services (unless Borrower/Grantee has a satisfactory mechanism of its own or this function is included in the scope of the Consulting Engineer's contract);

(c) Arrangements for Construction Services;

(d) Master List of Equipment and Materials - In some cases such a list may be feasible and desirable to have submitted for prior AID approval. Where this is done, it will not be a substitute for the required certification by the Consulting Engineer and specific approval by AID of the individual requests for financing of, or disbursement for, particular items in the course of construction.

(e) Plans for development and/or construction of ancillary facilities. These should be specifically identified and a time-phased scheduling of same included in (f) below.

Work plans and schedules - A time-phased projection of major actions and stages to be attained in the course of carrying out and completing the activity, including (e) immediately above, should be submitted to AID. It might be noted here, for the information of the Borrower/Grantee, that this time-phased schedule of actions and events is one of AID's most important monitoring tools. Progress in initiating and carrying out the activity is measured against it. It may be adjusted, with AID approval, as the activity is developed and should be maintained as a realistic yardstick against which Progress Reports can be measured.

[12]. Terminal Date for Completion of Conditions Precedent

This date is determined in the course of negotiations on the Agreement and is intended to provide a reasonable period of time for the Borrower/Grantee to meet the prescribed conditions. It provides AID an opportunity to exercise the option of re-examining its position vis-a-vis the loan or grant, if the conditions are not met by the prescribed date.

B. Disbursement Procedures and Documentation

One or more of the basic AID disbursement procedures, discussed below, will meet most situations that will arise, as regards both dollar and local currency costs. Details are provided in the illustrative provisions attached, which describe the procedures and the documentation which the Borrower/Grantee must arrange to have its suppliers/contractors furnish in order to obtain payment under the AID loan or grant.

1. Direct Reimbursement Procedures may be used where the Borrower/Grantee elects to utilize its own resources to effect payment and is then reimbursed by AID upon presentation of the required documentation evidencing payment for eligible goods and services. (See Attachment F). The mission, rather than AID/W, normally disburses loan or grant funds for goods and services procured from local sources. Disbursements for such goods and services are effected to the Borrower/Grantee in dollars or local currency obtained by the mission, in the manner described in part C.5 of this chapter. The mission's Controller examines and certifies the required documentation submitted by the Borrower/Grantee and forwards it to the U.S. Disbursing Officer. (See Attachment H).

2. Direct Letter of Commitment to Consultants, Contractors or Suppliers is used in situations in which the contracting party does not wish to rely on recipient country banking and administrative units for processing of payments. This method may also be used for larger purchases to minimize the expense of banking charges associated with bank letters of commitment.

3. Direct Payment procedures may be used for AID-implemented portions of a project or, in special cases, for other project payments. This method may be authorized at the request of the Borrower/Grantee or at the discretion of AID for payments to participating U.S. Government agencies.

4. Bank Letter of Commitment procedure is the most usual method. A Letter of Commitment is issued by AID/W to a U.S. Bank, designated by the Borrower/Grantee, authorizing the bank to make payment for specified goods/services under conditions prescribed in the Project Agreement. (See Attachment E). Payments made by the U.S. Bank, through Letters of Credit or other means of payment, are reimbursed to the bank by AID/W upon presentation of the required documentation previously collected by the bank from the suppliers/contractors.

5. Federal Reserve Letters of Credit are normally used but not limited to agreements with educational and nonprofit institutions, including international organizations. This procedures is arranged by AID/W and is only used where the amount required for advance funding is more than $120,000 per year and the participation of the contractor or institution is to be for more than one year.

6. Special Letter of Credit may be made available in the form of an irrevocable, transferable letter of credit issued by a U.S. Bank upon the request of AID in favor of the recipient country Central Bank or other designated agent of the Borrower/Grantee in payment for performance or other consideration such as for the purpose of local currency generation.

7. Fixed Amount Reimbursement method may be used under circumstances where the project structure and personnel in the mission and Borrower/Grantee organization meet certain criteria. Reimbursements (and a revolving fund, as appropriate) are provided to the Borrower/Grantee or its agent upon physical completion of previously agreed upon, quantifiable project units or subproject elements.

8. Terminal Financing Dates

The Project Agreement will specify a cutoff of AID disbursements based on the projected completion data for the activity. A terminal date is always prescribed for the submission to AID, either by a U.S. Bank or by the Borrower/Grantee, of documentation required to obtain

disbursement of funds. In addition, where foreign exchange costs are being financed and the Letter of Commitment procedure is utilized, a terminal date is set for the Borrower/Grantee's submission of requests to AID for the issuance of Letters of Commitment (TDDA). In setting this date, a judgment must be made as to the length of time that is to be provided between the issuance of the Letter of Commitments and the last date on which final payment documents may be presented to AID by a U.S. Bank. Setting of the TDDA depends upon the procurement leadtime of types of goods and services to be financed towards the end of the project.

C. Rules Governing Procurement

As specified in the Agreement, in covenants and articles on procurement, the Borrower/Grantee undertakes to abide by AID requirements regarding eligibility of goods and services for AID financing. In placing orders for goods and in contracting for services, the Borrower/Grantee passes on to the supplier/contractor the applicable AID requirements. Similarly, intermediate credit institutions receiving loans from AID are required to incorporate applicable requirements into agreements with sub-borrowers. In monitoring compliance with such requirements, AID ensures that contracts entered into by Borrower/Grantees contain appropriate provisions and, when issuing documents on behalf of the Borrower/Grantee (i.e., a Letter of Commitment), AID includes a requirement that documentation or certifications be obtained as evidence of compliance with the Project Agreement and the Implementation Letter, before payment is effected. The basic Implementation Letter provides, for each applicable section of the Agreement, additional information and procedural description to assist the Borrower/Grantee to comply with AID procurement requirements. Certain of the provisions are self-explanatory; e.g., 50/50 Shipping and Marine Insurance. In such instances, a mere reference in the Implementation Letter is sufficient. Such a reference should be included to assure complete coverage of the requirement so that a Borrower/Grantee's representative, by reading the basic Implementation Letter in the absence of the Agreement itself, may be made aware of all controlling AID requirements. Normally, the Implementation Letter will cover the following:

1. Eligibility Date

Here a reference to the appropriate section of the Agreement, repeating the controlling date, is sufficient. Orders placed or contracts signed prior to that date are not eligible for financing with AID funds.

2. Reasonable Price

This provision is complied with by informing the supplier/contractor that the Supplier's Certificate, providing information as to price, in addition to normal commercial documentation, will be required in order to obtain payment. In the case of contracts for services, the reasonable price element will have been passed on at the time AID approves the contract. Prices of goods are normally verified by AID by post-audit.

3. Notification to Potential Suppliers

In complying with this requirement, with regard to imported Goods, the Borrower/Grantee is requested to follow the procedures described in Attachment I.

In the case of procurement from the U.S. by intermediate credit institutions, a slightly different procedure is followed.

The recipient institution will assume the responsibility for disseminating the information as to goods and services to be procured in the U.S. to the U.S. suppliers/contractors at the earliest possible time. Accordingly, as soon as the institution decides to approve an application which includes U.S. procurement of goods and services, it will furnish the Office of Small Business, AID Washington (with a copy for the mission), with the following type of information:

- Name, identification of the sub-loan to be approved, and total amount of funds.
- The contemplated amount of AID funds involved and the proportion to be utilized to finance imports.
- A list of the category of items, expressed in AID three-digit code, for which orders of $5,000 or more are expected to be placed in the U.S; and in the case of services, the type of service and contract to be let.
- Organization and address to which inquiries and offers are to be sent.
- Indicate the limitation which is to be set as to source/origin of the procurement in conformance with the AID Agreement.

This institution will also be advised that AID recognizes that some of the sub-loan applications which it has decided to approve may not be consummated. Accordingly, since this technique has been devised

to i) give U.S. suppliers notice, as far in advance as possible; and ii) avoid delays in getting the various undertakings underway by the small sub-borrowers who have not established formal mechanism and channels of procurement. AID will qualify the announcement of the procurement to make this clear to U.S. business. Further, the intermediate credit institutions are to be informed in this part of the letter that while, in general, the above-described data will meet AID requirements, there may be instances when AID will require additional details. They should also inform the sub-loan applicants, when approving their applications, of the above action with regard to the proposed procurement and the sub-loan applicants will be expected to respond to inquiries from U.S. suppliers/contractors and to provide details to permit U.S. suppliers/contractors to present bids on the proposed procurement.

4. Eligible Sources of Procurement

The attention of the Borrower/Grantee should be directed to the appropriate section of the Agreement which prescribes the required source of goods and services and marine insurance financed by AID.

5. Source of Other Goods and Services Used for the Project

The attention of the Borrower/Grantee should be directed to the appropriate section of the Agreement which prescribes the required source of goods and services other than those financed by AID. Normally, such procurement must be from countries included in Code 899 of the AID Geographic Code Book. Accordingly, this paragraph should include the following statement:

> "For your purposes, Code 899 as in effect on the date of this letter includes any country in the world except the following:
>
> Union of Soviet Socialist Republics, Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Romania, Estonia, Latvia, Lithuania, Poland, Danzig, Vietnam, North Korea, China (Mainland) and other Communist-controlled areas, Outer Mongolia and Cuba.
>
> Thus, no goods or services to be used in connection with this activity, regardless of the source of financing, may be purchased from, or have their origin in, the countries listed above."

6. Application of the 50/50 Shipping Requirement

Since the language of this section of the Agreement is self-explanatory, only a reference is made to call the attention of the Borrower/Grantee to the requirement. The Borrower/Grantee must take appropriate steps to comply with the requirement of the section

when placing orders for goods which will have to be transported on ocean vessels. A shipping schedule should be part of the overall procurement/logistics plan and will help the Borrower/Grantee manage activities relating to this requirement. In addition, the Borrower/Grantee's attention should be called to the Quarterly Shipping Report (see F.4 below) by which it will keep AID advised of its performance in this respect.

7. Use of Air Freight

The attention of the Borrower/Grantee should be called to the requirement that goods financed with AID funds may be shipped by air freight only if such shipment does not substantially increase the delivered cost of the goods or when clearly necessary because of the nature of the goods or the inability of available surface transportation to assure delivery within the time required to meet the needs of the activity. The eligibility of air carriers should also be described.

8. Limitation on Shipping Facilities

For this part of the letter the following suggested language may be useful:

> "In accordance with Section of this Agreement, items otherwise eligible for AID financing under this Loan/Grant will not be so financed if shipped on transportation media owned or controlled by any of the ineligible countries listed (paragraph), above. In addition, AID will not finance any goods or the cost of transportation of any goods to your country from the U.S. on a vessel which AID has designated ineligible to carry AID-financed commodities. The mission in (country) will advise you as to the names of the vessels so designated."

9. Marine Insurance

A reference to the appropriate section of the Agreement is sufficient. The language is self-explanatory.

10. Marking and Publicity

One of three methods, or combination of these methods, as the Agreement provides, may be prescribed, depending on the nature of the activity financed by AID. The three alternatives are as follows:

a. Marking of Goods and Shipping Containers. Where the loan or grant is used to finance goods, it is required that the Borrower/Grantee have such goods and their containers suitably marked with the AID "Hand-Clasp" emblem. Marking expenses are eligible for AID financing. Information to assist the Borrower/Grantee in complying with this requirement is contained in Attachment I.

b. Signs at Project Sites. Where AID is financing a physical project and it is deemed to be in the U.S. interest, the Borrower/Grantee may be required to have signs placed at the project site or sites bearing the "Hand Clasp" emblem. Expenses incurred are eligible for AID financing where local cost financing is provided. Information to assist the Borrower/Grantee in complying with this requirement is contained in Attachment J.

c. Notification in Public Media. Appropriately timed and worded notices of project activities may be published in local newspapers and bulletins or other suitable news media.

11. Acceptability of U.S. Contractors and Contractor Personnel

United States contracting firms (principal contractors and subcontractors) and the United States citizens performing services overseas under a principal contract or subcontract financed with an AID Loan or Grant may be required to obtain clearance from AID on personnel assignments. If such is a requirement, information that must be furnished to AID to determine their acceptability is set forth in Attachment O.

12. Availability of Investment Guaranties

If applicable and the Agreement includes a project approval by the Borrower/Grantee government for purposes of issuance of AID investment guarantees to eligible United States contracting firms, the bid documents for the procurement of goods and services will give appropriate notice of this approval. Information to assist the Borrower/Grantee in complying with this requirement is included in Section III.C.17 of Attachment R.

D. Records, Inspections and Audits

This part of the letter specifies AID records, inspections and audit requirements and the manner of reporting same as part of the "Implementation Plan," pursuant to the provision of the Agreement requiring the Borrower/Grantee to keep certain records for such period of time as AID may require. Records on the acquisition of equipment, materials and services and operational records dealing with; a) the utilization of AID-financed goods and services; b) operations of the activity; and c) the financial condition of the Borrower/Grantee must be kept until three years after the final AID disbursement under the agreement.

E. Reports to be Submitted to AID

This part of the letter brings together under one heading the various reports called for by the Agreement and any additional reports that may have been requested in the letter. The latter may be separate reports or special points to be included in the regular reports in addition to the coverage of standard attachments. This should be kept in mind in preparing the basic Implementation Letter since the discussion below anticipates the standard reporting requirements only. "Typical" language, subject to appropriate changes for which the drafting officer(s) is responsible is set forth below. To the maximum extent practicable, AID shall make use of the Borrower/Grantee's existing reporting system and formats.

1. General

You are requested, pursuant to Section of the Project Agreement to furnish to the U.S. AID Mission in (country), (number) copies of each report described below.

2. Quarterly Progress Reports

A description of the information to be included in these reports is contained in Attachment L. [In addition, you are requested to add (indicate what and where in the report).] [You will note, however, that (what and where in the report) is not applicable to your report and you [may therefore omit it] [are requested to substitute (what and were).]] The first report from the inception of the project through the period ending (date) , should be mailed or delivered by hand by (give date, 30 days later). Subsequent reports, on a quarterly basis, should cover three-month periods thereafter and should be mailed or delivered by hand within thirty (30) days of the end of the period reported on, until the project is completed. If a final "Completion Report" is necessary, you will be advised, at a later time, as to its form and content.

[NOTE TO DRAFTER: The above is applicable to physical project involving construction. Language generally applicable to loans to Development Banks is suggested below.]

3. Progress Reports

a. Monthly Reports. The information described in Section A of Attachment M is required on a monthly basis. The first such report presenting data from inception of activities under the AID Loan/Grant through (date) Subsequent reports covering

monthly periods thereafter are to be dispatched within 20 calendar days after the end of the month covered by the report.

b. Quarterly Reports. The information described in Section B of Attachment M is to be submitted on a quarterly basis. The first such report presenting data from inception of activities under AID loan through (date) is to be dispatched by (date) . Subsequent reports, covering calendar quarters thereafter, are to be dispatched within thirty (30) days of the end of the period reported on. Each report is to be supplemented by a covering summary statement giving the cumulative actual figures, beginning with the initial report through the month of the latest report, for U.S. and non-U.S. flag vessels by category of vessel, as applicable. If the summary report indicates a lag in compliance with Section kindly include a statement indicating how the deficit in shipping of U.S. flag vessels is to be made up.

5. Annual Financial Reports on Loans to Private Borrowers and Revenue-Producing Government Entities

a. Borrower's Reports. A financial report is required annually, until the Loan is fully repaid, which must include a detailed Balance Sheet, Profit and Loss Statement and an Analysis of Retained Earnings, setting forth your true and fair financial condition and the results of your operations. The report must be audited and certified pursuant to Section of the Project Agreement.

Please advise us of the report year or other period you will use in presenting your financial position and as to how soon thereafter we may expect to receive a report. Such a report shall be delivered to the U.S. AID Mission (days) within (normally 120 days) of the end of the reporting period. If the data outlined above is normally included in existing reports, duly audited and certified, and is acceptable to AID, such reports may be submitted to meet this requirement.

b. Auditor's Reports. In addition to the annual financial reports, required by the preceding paragraph, your auditors (whether independent public accounting firms or government audit entities) are required to submit directly to the U.S. AID an annual report in regard to the scope and results of their audits. The content of this report is indicated in Attachment D.

F. Use of English Language

The penultimate paragraph of the Implementation Letter should repeat for emphasis, the language of the specified section of the Agreement

which requires that, unless otherwise agreed between the parties, all correspondence, reports and other documents submitted to AID concerning this Loan or Grant will be in the English language.

G. Closing Paragraph

It is good practice in closing an Implementation Letter to request the Borrower/Grantee or his authorized representative to send a letter to the U.S. AID Mission acknowledging receipt of the Implementation Letter and raising any problems or questions it may have in regard to the letter and the attachments to it concerning implementation of the loan or grant.

[NOTE TO DRAFTER: In addition to the signature of the authorized AID official, the last page of the letter should list the titles of the attachments used.]

[A draft of this Basic Letter should be discussed with the Borrower/Grantee early in project negotiations and prior to issuance to minimize misunderstandings and implementation problems. The authorized representative of the Borrower/Grantee should countersign this Basic Implementation Letter to reinforce acceptance and subsequent compliance therewith.]

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APPROVED BY FM:M D STAFFORD
ASIA:B BRENNAN (DRAFT)
LAC:M BROWN (DRAFT)
AFR: S LIAPIS (DRAFT)
SER:J OWENS (DRAFT)
PPC: KENEFICK (DRAFT)
AG:C BENNETT (DRAFT)
GC:S B VERET (DRAFT)
SER/MP:FALLEN (PHONE)
DESIRED DISTRIBUTION
IN ACTION FM INFO CHRON AAAF AFEA AFEN AFEV AFOP AFNW AAAS ASPT ASPM
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AIDAC GUATEMALA FOR USAID AND ROCAP KARACHI FOR AAG AND IIS

E.O. 11652: N/A
NAIROBI FOR USAID AND REDSO/EA, PARIS FOR UNESCO AND USOECD
ROME ALSO FOR AID OFFICE FRIULI

SUBJECT: ADMINISTRATIVE APPROVAL OF VOUCHERS UNDER HOST COUNTRY CONTRACTS
REF: HANDBOOK 13, CHAPTER 3, REVISED MAY 11, 1979

1. PROJECT OFFICER. THE PROJECT OFFICER, AS THAT TITLE IS USED IN THIS MESSAGE, IS THAT MEMBER OF THE MISSION STAFF WHO IS CHARGED WITH THE MONITORING OF A PROJECT. MONITORING OF PROJECTS INCLUDING DIFFERENT ELEMENTS (E.G. ADVISORY SERVICES, TRAINING AND CONSTRUCTION OF PHYSICAL FACILITIES) MAY BE DIVIDED AMONG SEVERAL OFFICERS HAVING DIFFERENT TECHNICAL BACKGROUNDS. ONLY ONE OF THEM, HOWEVER, IS CHARGED WITH THE OVERALL MONITORING OF PROJECT IMPLEMENTATION AND IS DESIGNATED AS PROJECT OFFICER. FOR THE PURPOSE OF APPROVING VOUCHERS THE PROJECT OFFICER MAY RELY ON OTHER OFFICERS HAVING PARTIAL RESPONSIBILITIES FOR PROJECT MONITORING FOR INFORMATION AND ADVICE. (NOTE: MISSIONS WHICH USE THE TERM PROJECT MANAGER TO DESIGNATE THE USAID OFFICER RESPONSIBLE FOR PROJECT IMPLEMENTATION SHOULD SUBSTITUTE THAT TERM FOR PROJECT OFFICER IN THIS MESSAGE.)

2. PROJECT MONITORING. IN MONITORING PROJECTS, PROJECT OFFICERS USE PERIODICAL REPORTS PREPARED BY CONTRACTORS, HOST COUNTRY REPORTS, SITE VISITS AND CONFERENCES WITH THE HOST COUNTRY'S IMPLEMENTING AGENCY OR AGENCIES AND CONTRACTORS AS SOURCES OF INFORMATION ON THE STATUS OF PROJECTS AND ON IMPLEMENTATION PROBLEMS AND AS A BASIS FOR THEIR EFFORTS TO ASSIST IN THE RESOLUTION OF SUCH PROBLEMS. IN CARRYING OUT THOSE MONITORING TASKS, THEY BECOME FAMILIAR WITH AT LEAST THE KEY MEMBERS OF THE STAFF OR, WHERE SMALL CONTRACTOR TEAMS ARE INVOLVED, WITH ALL TEAM MEMBERS, AND WITH THE WORK BEING PERFORMED BY THE CONTRACTOR. THAT WORK MAY INCLUDE ONLY ADVISORY SERVICES, OR IN ADDITION, THE PROVISION OF COMMODITIES NEEDED FOR THE PROJECT, ON-THE-JOB TRAINING OR OTHER SERVICES; IT MAY ALSO CONSIST OF STUDIES, CONSTRUCTION SUPERVISION OR MANAGEMENT, OF OTHER ENGINEERING SERVICES, OF CONSTRUCTION SERVICES (USUALLY INCLUDING THE PROVISION OF CONSTRUCTION MATERIALS), OF INSTALLATION SERVICES OR A COMBINATION OF TWO OR MORE OF SUCH SERVICES. THE WORK MAY ALSO CONSIST OF THE SUPPLY OF EQUIPMENT OR MATERIALS NEEDED FOR A PROJECT, EITHER EXCLUSIVELY OR COMBINED WITH INCIDENTAL SERVICES, SUCH AS ERECTION SUPERVISION. DEPENDING ON THE TYPE OF WORK TO BE PERFORMED UNDER A CONTRACT AND ON THE SIZE OF THE PROJECT, A PROJECT OFFICER MAY HAVE A FAIRLY DETAILED KNOWLEDGE OF THE SERVICES BEING RENDERED OR THE GOODS SUPPLIED; IN OTHER CASES, PARTICULARLY WHERE NUMEROUS CONTRACTS ARE NEEDED TO IMPLEMENT A PROJECT, THE PROJECT OFFICER MAY DEVOTE HIS MONITORING TIME PRIMARILY TO PROBLEM AREAS AND PAY LESS ATTENTION TO CONTRACTS THAT ARE BEING CARRIED OUT ROUTINELY AND WITHOUT CAUSING NOTICEABLE PROBLEMS.

3. PRINCIPLES GOVERNING ADMINISTRATIVE APPROVAL OF VOUCHERS. THE ESTABLISHMENT OF A REQUIREMENT FOR THE ADMINISTRATIVE APPROVAL OF VOUCHERS UNDER COUNTRY CONTRACTING PROCEDURES IN 1977 WAS PREDICATED ON THE FACT THAT A PROJECT OFFICER IN THE FIELD IS MORE FAMILIAR WITH THE PROJECTS ASSIGNED TO HIM, AND WITH THE WORK BEING PERFORMED BY CONTRACTORS IN THE IMPLEMENTATION OF SUCH PROJECTS, THAN ANY OTHER PERSON IN AID. IT WAS INTENDED TO MAKE USE OF THAT FAMILIARITY WITH PROJECTS TO PREVENT ERRORS IN MAKING PAYMENTS TO CONTRACTORS WITHOUT, AT THE SAME TIME, IMPOSING ON PROJECT OFFICERS A SUBSTANTIAL ADDITIONAL WORKLOAD OR CREATING A NEW COMPONENT OF A PROJECT OFFICER'S SCOPE OF WORK. THESE CONCEPTS ARE REFLECTED IN THE REFERENCE TO QUOTE MY PERSONAL KNOWLEDGE OF THE PROJECT UNQUOTE IN THE PROJECT OFFICER'S APPROVAL STATEMENT. AN ELABORATION OF THESE PRINCIPLES IS CONTAINED IN THE FOLLOWING PARAGRAPHS.

4. VOUCHERS EXEMPTED FROM REQUIREMENT OF ADMINISTRATIVE APPROVAL. IN ADDITION TO VOUCHERS SUBMITTED FOR PAYMENT UNDER BANK LETTERS OF COMMITMENT, EXEMPTED FROM THE REQUIREMENT OF ADMINISTRATIVE APPROVAL IN MARCH 1977, CERTAIN VOUCHERS SUBMITTED UNDER DIRECT LETTERS OF COMMITMENT ARE NOW ALSO EXEMPTED, VIZ. VOUCHERS RELATING TO THE SUPPLY OF GOODS, I.E. PROJECT COMMODITIES SUPPLIED BY SERVICE CONTRACTORS AND EQUIPMENT AND MATERIALS PURCHASED BY HOST COUNTRY AGENCIES FOR THE IMPLEMENTATION OF PROJECTS, IF THE CONTRACTS UNDER WHICH SUCH GOODS ARE SUPPLIED PROVIDE FOR PAYMENT AGAINST INVOICES AND SHIPPING DOCUMENTS. THAT EXEMPTION IS MADE BECAUSE THE FIELD PROJECT OFFICER HAS NO INDEPENDENT KNOWLEDGE OF THE CONTRACTOR'S PERFORMANCE IN SHIPPING THE INVOICED COMMODITIES AND THEREFORE COULD NOT BASE HIS ADMINISTRATIVE APPROVAL OF THE VOUCHER ON QUOTE PERSONAL KNOWLEDGE OF THE PROJECT UNQUOTE; MOREOVER, THE SHIPPING DOCUMENTS, TOGETHER WITH THE CONTRACTOR'S CERTIFICATION, DOCUMENT THE FACT THAT THE CONTRACTOR HAS PERFORMED IN ACCORDANCE WITH THE CONTRACT. (SHORTAGES, BREAKAGE, NON-COMPLIANCE WITH SPECIFICATIONS AND ANY OTHER SHORTCOMINGS IN CARRYING OUT THE TERMS OF THE CONTRACT ARE HANDLED IN THE USUAL MANNER BY CLAIMS AGAINST THE CONTRACTOR OR INSURER; SUCH SHORTCOMINGS COULD NOT BE DISCOVERED BY A PROJECT OFFICER AT THE TIME PAYMENT IS DUE BUT ONLY AFTER ARRIVAL OF THE GOODS AT THE SITE AND INSPECTION).

5. BASIS FOR PROJECT OFFICER'S ADMINISTRATIVE APPROVAL; (A) THE PRINCIPLES UNDERLYING THE REQUIREMENT FOR ADMINISTRATIVE APPROVAL ARE SET FORTH IN PARAGRAPH 3, AB VE; FOR THE PURPOSE OF CLARIFYING THOSE PRINCIPLES, A NUMBER OF SPECIFIC TYPES OF CONTRACTS ARE DISCUSSED BELOW.

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(B) SERVICES UNDER COST REIMBURSABLE CONTRACTS.
(I) COSTS OF FIELD SERVICES. THE MAJOR COSTS UNDER THIS HEADING ARE SALARIES AND OTHER COMPENSATION PAID TO THE CONTRACTOR'S EMPLOYEES IN THE FIELD; THE PROJECT OFFICER IS EXPECTED TO REVIEW ONLY THE NUMBER AND CLASSIFICATION OF THE EMPLOYEES FOR WHOM SALARIES ARE BILLED AND TO CONFIRM THAT THE BILLING IS CONSISTENT WITH THE FACTS AS HE KNOWS THEM FROM PERSONAL OBSERVATION OR FROM REPORTS; NO SPECIAL EFFORT NEED BE MADE TO VERIFY THE ACCURACY OF THE BILLING BY INSPECTING THE CONTRACTOR'S TIME RECORDS OR MAKING OTHER INQUIRIES. NOR IS IT EXPECTED THAT THE PROJECT OFFICER CHECK THE BILLING FOR CONSISTENCY WITH THE CONTRACT OR FOR ARITHMETICAL ACCURACY. A REVIEW OF OTHER ITEMS OF FIELD COSTS BILLED, SUCH AS TRAVEL, COMMUNICATIONS, OFFICE EXPENSES AND SIMILAR MISCELLANEOUS COSTS, DO NOT REQUIRE A DETAILED REVIEW BY THE PROJECT OFFICER SINCE, IN MOST INSTANCES, HE WILL NOT HAVE ANY PERSONAL KNOWLEDGE OF THE JUSTIFICATION OF SUCH CHARGES. ANY

OBVIOUS DISCREPANCIES BETWEEN THE BILLING AND FACTS KNOWN TO THE PROJECT OFFICER SHOULD, HOWEVER, BE NOTED. (SEE PARAGRAPH 3, BELOW ON DISALLOWANCES.)

(II) HOME OFFICE COSTS. THE PROJECT OFFICER WILL, IN MOST CASES, BE UNABLE TO JUDGE THE JUSTIFICATION OF CHARGES FOR HOME OFFICE COSTS SINCE HIS MONITORING COVERS PRINCIPALLY FIELD ACTIVITIES. HE IS THEREFORE NOT EXPECTED TO ATTEMPT A DETAILED VERIFICATION OF SUCH CHARGES; HE IS EXPECTED TO NOTE ONLY SUCH DISCREPANCIES AS HE IS ABLE TO DISCOVER BASED ON KNOWLEDGE ACQUIRED IN THE COURSE OF NORMAL PROJECT MONITORING, E.G. COSTS OF PRINTING A REPORT HE KNOWS HAS NOT YET BEEN COMPLETED OR A FIELD TRIP BY A HOME OFFICE EXECUTIVE WHICH HE KNOWS HAS NOT TAKEN PLACE.

(C) GOODS SUPPLIED UNDER COST REIMBURSABLE CONTRACTS. GOODS FOR WHICH PAYMENT IS DUE UPON SHIPMENT FROM A POINT DEFINED IN THE CONTRACT (FOB FACTORY, FOB PORT OF EXPORT OR C & F, WITH PAYMENT UPON SHIPMENT), ARE NOT SUBJECT TO THE PROJECT OFFICER'S ADMINISTRATIVE APPROVAL AS EXPLAINED UNDER PARAGRAPH 4, ABOVE. WHEN CHARGES FOR SUCH GOODS ARE BILLED ON THE SAME INVOICE AS SERVICES, WHICH ARE SUBJECT TO SUCH APPROVAL, THE PROJECT OFFICER'S CERTIFICATION SHALL BE DEEMED TO COVER ONLY THE SERVICE ITEMS REVIEWED BY HIM PURSUANT TO SUBPARAGRAPH (B), ABOVE. IN THE RARE CASES WHERE PAYMENT FOR GOODS IS DUE ONLY AFTER RECEIPT AT THE SITE, THE PROJECT OFFICER IS NOT EXPECTED TO VERIFY THE QUANTITIES OF THE ITEMS SHIPPED, OR THEIR CONFORMANCE TO SPECIFICATIONS; HE IS TO NOTE, HOWEVER, IF HE KNOWS THAT THE GOODS HAD NOT BEEN RECEIVED DURING THE PERIOD COVERED BY THE BILLING, EITHER FROM PERSONAL OBSERVATIONS OR FROM REPORTS. (SEE PARAGRAPH 8, BELOW.)

(D) GOODS AND SERVICES SUPPLIED UNDER FIXED PRICE CONTRACTS.
(I) LUMP SUM CONTRACTS. A MAJOR CATEGORY OF CONTRACTS OF THIS TYPE ARE CONTRACTS COVERING THE SUPPLY OF MATERIALS AND EQUIPMENT FOR WHICH PAYMENT IS TO BE MADE UPON SHIPMENT. VOUCHERS SUBMITTED UNDER SUCH CONTRACTS ARE NOT SUBJECT TO THE ADMINISTRATIVE APPROVAL OF THE PROJECT OFFICER BECAUSE, AS EXPLAINED UNDER PARAGRAPH 4 ABOVE, THE PROJECT OFFICER HAS NO INDEPENDENT KNOWLEDGE OF THE SHIPMENT AND PAYMENT MUST BE MADE BY AID ON THE BASIS OF THE CONTRACTOR'S CERTIFICATION AND SHIPPING DOCUMENTS. PAYMENT FOR SERVICES PROVIDED UNDER A FIXED LUMP SUM CONTRACT ARE NORMALLY MADE UPON COMPLETION OF THE CONTRACT. CONTRACTS OF SHORT DURATION AND OF RELATIVELY SMALL VALUE, SUCH AS CONTRACTS FOR STUDIES OF LIMITED SCOPE OR SHORT-TERM, WELL-DEFINED SERVICES (E.G. REVIEW OF A REPORT), ARE EXAMPLES OF SUCH CONTRACTS. IN SUCH CASES, THE PROJECT OFFICER'S APPROVAL OF A VOUCHER IS BASED ON HIS KNOWLEDGE THAT THE SERVICES HAVE BEEN RENDERED OR A REQUIRED REPORT HAS BEEN SUBMITTED.

IN THE EXCEPTIONAL CASES WHERE LUMP-SUM FIXED-PRICE CONTRACTS PROVIDE FOR PROGRESS PAYMENTS, SUCH PAYMENTS ARE CONTRACTUALLY STIPULATED EITHER AT CERTAIN FIXED TIMES OR UPON THE OCCURRENCE OF SPECIFIED EVENTS. WHEN PAYMENT IS TO BE MADE AT FIXED TIMES, THE PROJECT OFFICER'S APPROVAL OF PROGRESS PAYMENTS MAY BE ROUTINELY PROVIDED UNLESS THE PROJECT OFFICER HAS PERSONAL KNOWLEDGE THAT THE CONTRACTOR HAS FAILED TO COMPLY WITH PERFORMANCE PROVISIONS OF THE CONTRACT ON WHICH THE FIXED PAYMENTS ARE PREDICATED. WHEN APPROVING THE VOUCHER FOR THE FINAL PAYMENT, THE PROJECT OFFICER IS EXPECTED TO KNOW WHETHER THE WORK HAS BEEN COMPLETED. IF PROGRESS PAYMENTS ARE DUE UPON THE OCCURRENCE OF A SPECIFIED EVENT (E.G. THE COMPLETION OF THE FOUNDATION OF A BUILDING OR THE SUBMISSION BY THE CONTRACTOR OF AN INTERIM REPORT), THE PROJECT OFFICER MAY APPROVE A VOUCHER UNLESS HE HAS PERSONAL KNOWLEDGE, FROM REPORTS OR OTHER SOURCES THAT THE SPECIFIED EVENT HAS NOT OCCURRED.

(II) UNIT PRICE CONTRACTS. UNIT PRICE CONTRACTS ARE NORMALLY USED ONLY FOR MAJOR CONSTRUCTION PROJECTS. SUCH CONTRACTS NORMALLY PROVIDE FOR PROGRESS PAYMENTS, USUALLY MONTHLY, BASED ON ACTUAL WORK PERFORMED. BILLINGS SHOW THE QUANTITIES OF VARIOUS CATEGORIES OF WORK PERFORMED AND THE CONTRACTUALLY FIXED UNIT PRICES, TOGETHER WITH THE AMOUNT CALCULATED BY MULTIPLYING THE QUANTITIES BY THE UNIT PRICES. THE QUANTITIES BILLED ARE, IN THE FIRST INSTANCE, ASCERTAINED BY THE CONTRACTOR; THEY ARE THEN CERTIFIED BY THE CONTRACTING AGENCY OF HIS CONSULTING ENGINEERS BEFORE BEING SUBMITTED TO THE PROJECT OFFICER FOR REVIEW. THE PROJECT OFFICER IS NOT EXPECTED TO VERIFY BY AN INDEPENDENT INVESTIGATION, SUCH AS THE EXAMINATION OF CONSTRUCTION RECORDS, WHETHER THE QUANTITIES BILLED ARE CORRECT; HE MAY RELY ON THE CERTIFICATION OF THE CONTRACTING AGENCY OR THE CONSULTING ENGINEER ACTING ON ITS BEHALF. NEITHER IS HE EXPECTED TO COMPARE UNIT PRICES USED IN THE BILLING WITH CONTRACT PRICES OR TO CHECK THE BILLING FOR ARITHMETIC ACCURACY. HIS APPROVAL OF THE VOUCHER SHALL MEAN ONLY THAT HE HAS NO KNOWLEDGE OF ANY FACTS WHICH WOULD MAKE AN INQUIRY INTO THE ACCURACY OF THE BILLING ADVISABLE EITHER BEFORE OR AFTER AID PAYS TO THE CONTRACTOR THE AMOUNT CLAIMED.

(E) OTHER FORMS OF CONTRACT. IN THE RARE INSTANCES WHERE

OTHER FORMS OF CONTRACT ARE USED (E.G. TIME-RATE CONTRACTS) THE FOREGOING GUIDANCE SHOULD BE USED, CONSISTENT WITH THE PRINCIPLES OUTLINED IN PARAGRAPH 3 AND THE DETAILED DISCUSSION IN THE FOREGOING SUBPARAGRAPHS, AS APPLICABLE.

6. UNUSUAL CIRCUMSTANCES.
(A) IF CONTRARY TO NORMAL PRACTICE, THE PROJECT FOR WHICH A VOUCHER IS SUBMITTED HAS NOT BEEN ASSIGNED TO A PROJECT OFFICER AND NO OTHER MEMBER OF THE MISSION STAFF HAS PERSONAL KNOWLEDGE OF THE PROJECT, OR IF THE PROJECT HAS BEEN ASSIGNED TO A PROJECT OFFICER ONLY JUST BEFORE THE VOUCHER IS SUBMITTED, THE PROJECT OFFICER OR ANOTHER MISSION OFFICER SHOULD APPROVE THE VOUCHER WITH THE FOLLOWING STATEMENT: QUOTE I HAVE REVIEWED THE VOUCHER, THE RELATED INVOICE (S) AND SUPPORTING DOCUMENTATION ATTACHED THERETO. I DO NOT HAVE AND AM UNABLE TO OBTAIN PROMPTLY PERSONAL KNOWLEDGE OF THE PROJECT. (E.G. QUOTE I ARRIVED AT POST SIX DAYS AGO AND HAVE NOT YET VISITED THE PROJECT SITE

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LOCATED 500 MILES FROM THE CAPITAL. ALSO, A USAID TECHNICIAN WHO RECENTLY VISITED THE PROJECT HAS BEEN MEDICALLY EVACUATED UNQUOTE). I HAVE NO REASON TO BELIEVE THAT PAYMENT OF THE AMOUNTS CLAIMED IN THIS VOUCHER SHOULD BE WITHHELD. THEREFORE, THE VOUCHER IS ADMINISTRATIVELY APPROVED FOR PAYMENT SUBJECT TO THE FINANCIAL REVIEW AND CERTIFICATION BY THE PAYING OFFICE. UNQUOTE

(B) QUALIFIED APPROVALS AS SET FORTH ABOVE SHOULD OBVIOUSLY BE USED ONLY ON RARE OCCASIONS SINCE THE CIRCUMSTANCES NECESSITATING THESE SHOULD NOT CONTINUE FOR ANY EXTENDED PERIOD. SHOULD THE ACO NOTE REPEATED INSTANCES OF QUALIFIED APPROVALS OF VOUCHERS RELATING TO THE SAME PROJECT, HE SHOULD INFORM THE MISSION DIRECTOR AND THE REGIONAL BUREAU IN WASHINGTON.

(C) THE APPROVAL STATEMENT SHOWN IN HANDBOOK 11, CHAPTER 1 (SECTION 3.6.5.8 (3) (2)) IS NOT TO BE USED IN THE CIRCUMSTANCES DESCRIBED IN SUBPARAGRAPH (A), ABOVE; IT IS REPEAT IS TO BE USED ONLY WHEN SUMMARY DATA, BUT NOT THE ACTUAL DOCUMENTATION, HAVE BEEN MADE AVAILABLE TO THE PROJECT OFFICER BY AN ACO LOCATED AT A DIFFERENT POST. HB 11 WILL BE CORRECTED ACCORDINGLY.

7. CERTIFICATION BY AUTHORIZED CERTIFYING OFFICER (ACO). THE ACO IS RESPONSIBLE FOR CHECKING VOUCHERS FOR CONSISTENCY WITH THE CONTRACT, INCLUDING THE CONTRACT BUDGET, AND ARITHMETIC ACCURACY, AS HE CONSIDERS NECESSARY, BEFORE MAKING PAYMENT. INCLUDED IN SUCH REVIEW WILL BE ALL BILLING ITEMS NOT ENCOMPASSED IN THE REVIEW OF THE PROJECT OFFICER, SUCH AS HOME OFFICE COSTS, TRAVEL AND TRANSPORTATION CHARGES, COMMUNICATION COSTS AND MISCELLANEOUS PERSONNEL COSTS, SUCH AS HOUSING AND EDUCATION ALLOWANCES.

8. DISALLOWANCES.
(A) DEFICIENCIES IN FORM. IF THE PROJECT OFFICER DISCOVERS DURING THE REVIEW OF A VOUCHER FORMAL DEFICIENCIES (E.G. LACK OF A SIGNATURE, LACK OF OR INCONSISTENCY BETWEEN SUPPORTING DOCUMENTS), HE SHOULD NOTE SUCH DEFICIENCIES IN HIS APPROVAL STATEMENT. IT IS THE RESPONSIBILITY OF THE ACO TO DECIDE WHAT ACTION TO TAKE.

(B) SUBSTANTIVE DISCREPANCIES. IF THE PROJECT OFFICER DISCOVERS DURING THE REVIEW OF A VOUCHER THAT CHARGES FOR ONE OR MORE ITEMS INCLUDED IN THE VOUCHER ARE INCONSISTENT WITH THE FACTS AS HE KNOWS THEM AND IN HIS OPINION, SHOULD NOT HAVE BEEN BILLED, HE SHOULD INFORM THE MISSION DIRECTOR OF THE FACTS IN THE CASE. A DECISION ON THE ACTION TO BE TAKEN SHALL BE MADE ONLY BY THE MISSION DIRECTOR, OR A PERSON DESIGNATED BY HIM FOR THIS PURPOSE; THE FOLLOWING COURSES OF ACTION SHOULD BE CONSIDERED:

(I) TO INFORM THE APPROPRIATE HOST GOVERNMENT AGENCY THAT AID CANNOT MAKE ANY, OR ONLY PARTIAL, PAYMENT TO THE CONTRACTOR, STATING THE BASIS FOR THAT FINDING; OR
(II) TO INCLUDE IN, OR ATTACH TO, THE APPROVAL STATEMENT, A REPORT ON THE FACTS WHICH PREVENT THE PROJECT OFFICER FROM SIGNING AN UNQUALIFIED APPROVAL STATEMENT; A DECISION ON THE ACTION TO TAKE WILL THEN BE MADE BY THE ACO.

THE FORMER COURSE SHOULD BE TAKEN IF THE DISCREPANCIES DISCOVERED BY THE PROJECT OFFICER ARE OF SUCH MAGNITUDE THAT IT APPEARS THAT THE ONLY PROPER REMEDY IS A REQUEST BY THE HOST GOVERNMENT AGENCY TO THE CONTRACTOR FOR SUBMISSION OF A CORRECTED VOUCHER. THE SECOND COURSE SHOULD BE CHOSEN WHEN THE ACO COULD MAKE PAYMENT SUBJECT TO ACTION BY THE CONTRACTOR (E.G. AN ADJUSTMENT ON A SUBSEQUENT BILLING), SUSPEND PAYMENT UNTIL THE DISCREPANCY IS EXPLAINED SATISFACTORILY OR TAKE ANY OTHER ACTION SHORT OF REFUSING TO PAY THE AMOUNTS CLAIMED. IF THE ACO DECIDES TO DISALLOW ANY PART OF THE AMOUNT CLAIMED ON A VOUCHER HE SHOULD PROMPTLY INFORM THE MISSION DIRECTOR SO THAT HE CAN APPRISE THE HOST GOVERNMENT OF THE DISPUTE. IN NO EVENT SHOULD THE MISSION DIRECTOR OR ANY OTHER MISSION OFFICER ADVISE A CONTRACTOR THAT AID HAS DISALLOWED, OR WILL DISALLOW, ANY PART OF THE AMOUNT BILLED BEFORE THE HOST GOVERNMENT AGENCY CONCERNED HAS BEEN INFORMED OF THE FACTS AS DETERMINED BY THE PROJECT OFFICER AND HAS BEEN ASKED TO REQUEST THE CONTRACTOR TO TAKE WHATEVER REMEDIAL ACTION IS REQUIRED. IF THE HOST GOVERNMENT AGENCY DOES NOT AGREE WITH AID'S FINDINGS AND BELIEVES NO REMEDIAL ACTION BY THE CONTRACTOR IS REQUIRED, AND IF THE MISSION DIRECTOR IS UNABLE TO REACH AGREEMENT WITH SUCH AGENCY, THE MATTER SHOULD BE REFERRED TO THE ASSISTANT ADMINISTRATOR OF THE REGIONAL BUREAU TO WHOM THE MISSION REPORTS.

9. HANDBOOK REVISIONS. HANDBOOK 13 AND OTHER HANDBOOKS WHICH INCLUDE PROVISIONS PERTAINING TO THE ADMINISTRATIVE APPROVAL OF HOST COUNTRY CONTRACT VOUCHERS WILL BE AMENDED IN ACCORDANCE WITH THIS MESSAGE. A MATRIX WILL ALSO BE PROVIDED TO DESCRIBE VOUCHER REVIEW REQUIREMENTS AS APPLIED TO THE VARIOUS TYPES OF HOST COUNTRY CONTRACTS. CHRISTOPHER

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APPROVED BY AID/AAID/C:F KIMBALL
AID/IMPLE TASK FORCE:LYAEGER
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TAGS:
SUBJECT. SPEEDING PROJECT IMPLEMENTATION

SUMMARY. THE AGENCY HAS REVIEWED A NUMBER OF TECHNIQUES WHICH CAN HELP GET PROJECTS UNDERWAY RAPIDLY AND SPEED IMPLEMENTATION. LOST TIME BETWEEN INITIAL DISCUSSION OF A PROJECT AND ACTUAL DELIVERY OF BENEFITS, OR IN DEALING WITH PROBLEMS WHICH ARISE DURING IMPLEMENTATION CAN SIGNIFICANTLY CONSTRAIN AID'S ABILITY TO BE RESPONSIVE TO DEVELOPMENT OPPORTUNITIES. THEY CAN, FOR EXAMPLE, WASTE THE MOMENTUM ESTABLISHED IN THE AID-COUNTERPART TERM DURING DESIGN, TAKE THE EDGE OFF URGENCY FOR POLICY REFORM, OR UNDERMINE CONFIDENCE IN AID'S ABILITY TO SUPPORT A NEW INITIATIVE.

IN PROJECT TERMS, SPEEDING THE START-UP PROCESS MEANS COMPRESSING THE PERIOD FROM PID APPROVAL TO THE ARRIVAL OF COMMODITIES, TECHNICAL ASSISTANCE, AND TRAINED PERSONNEL. THERE ARE MANY WAYS TO DO THIS, INCLUDING USING EXISTING IQC'S AND STRUCTURING CP'S TO ALLOW MANY DISCRETE PROJECTS ELEMENTS TO GO FORWARD. THE TSM ARRANGEMENT WITH UNIVERSITIES AND CERTAIN PROJECTS MANAGED BY

S AND T CAN ALSO BE USED TO SPEED IMPLEMENTATION. THIS MESSAGE, HOWEVER, FOCUSES ON WAYS OF BEGINNING PROCUREMENT EARLY BY ALLOWING DISCRETE PROJECT ELEMENTS WHICH CAN BE JUSTIFIED ON THEIR OWN TO PROCEED IN ADVANCE OF AUTHORIZATION. THESE SELF-STANDING INVESTMENTS COULD BE EXPECTED TO BRING EVEN GREATER RETURN IF THE PROJECT DOES PROCEED.

THESE SAME MECHANISMS HAVE SIGNIFICANT USES BEYOND FASTER STARTS. SPEEDING OR IMPROVING PROJECTS BY RAPIDLY ADDRESSING PROBLEMS OR OPPORTUNITIES WHICH ARISE DURING IMPLEMENTATION MAY BE AN EQUALLY IMPORTANT APPLICATION.

THE FOLLOWING DISCUSSION DOES NOT SET OUT DRAMATIC NEW TECHNIQUES; ALL HAVE BEEN SUCCESSFULLY USED IN THE FIELD. NOR IS IT ALL-INCLUSIVE, AND WE WOULD WELCOME ANY COMMENTS ON OTHER DEVICES FOR ACCELERATING

IMPLEMENTATION WHICH MISSIONS HAVE DEVELOPED OR MAY DEVELOP IN THE FUTURE. END SUMMARY.

1. IMPLEMENTATION PROJECTS. A NUMBER OF MISSIONS HAVE IN PLACE FLEXIBLE PROJECTS WHICH CAN BE USED TO QUICKLY PROCURE TECHNICAL ASSISTANCE OR COMMODITIES NEEDED TO DEAL WITH SPECIFIC DEVELOPMENT OPPORTUNITIES. GENERALLY, THESE WOULD FUND INDEPENDENT ACTIVITIESTO SUPPORT THE POLICY DIALOGUE, TAKE ADVANTAGE OF LATE-EMERGING POSSIBILITIES IN ONGOING PROJECTS, ENCOURAGE PARTICULARLY WORTHWHILE ACTIVITIES WHICH FELL BELOW A PROJECT EFFORT, OR DEVELOP ALTERNATIVES TO A RESTRICTIVE HOST COUNTRY REGULATION. CERTAIN OF THESE COMMODITIES OR SERVICES MIGHT ALSO BE USEFUL TO GET POTENTIAL PROJECT ACTIVITIES UNDERWAY BEFORE LONG-TERM TA COULD BE MOBILIZED OR MAJOR EQUIPMENT ORDERS ARRIVE. (SUCH PROJECTS WOULD OBVIOUSLY HAVE TO BE STRUCTURED SO THAT SUB-ACTIVITIES MEET 611 (A) CRITERIA.)

2. THIS CAN BE ILLUSTRATED BY USING A HYPOTHETICAL PROJECT IN THE HEALTH SECTOR WHICH COMBINES TA, COMMODITIES AND PARTICIPANT TRAINING TO DEVELOP AN INSTITUTIONAL CAPACITY TO DELIVER A SPECIFIC TYPE OF BASIC SERVICE ON A DECENTRALIZED, SELF-SUSTAINING BASIS TO A PILOT AREA. A FLEXIBLE IMPLEMENTATION-FACILITATING PROJECT COULD HAVE IMMEDIATE TA NEEDS IN PLACE AT SIGNATURE, SEND SENIOR COUNTERPARTS FOR U.S. INVITATIONAL

TRAVEL TO PREPARE FOR IMPLEMENTATION, OR OBTAIN SERVICES TO DO AN INSTITUTIONAL ANALYSIS AND TO RECOMMEND IMPROVEMENTS IN TRAINING OR DATA PROCESSING. IT MIGHT HAVE ALREADY ORDERED BASIC LABORATORY EQUIPMENT FOR LOCAL CLINICS OR COMPUTERS FOR A STATISTICAL CENTER.

3. PROJECT DEVELOPMENT AND SUPPORT. PD AND S FUNDS EXIST BECAUSE PROGRAM RESOURCES ARE NEEDED OUTSIDE THE PROJECT CONTEXT TO "PRIME THE PUMP" OR TO PERMIT NON-PROJECT ACTIVITIES IN SUPPORT OF PROJECTS OR BROAD SECTOR STRATEGIES. THEY ARE IMPORTANT, FOR EXAMPLE, IN OBTAINING PP STUDIES, FUNDING SHORT-TERM PARTICIPANT TRAINING OR TRAVEL, AND DOING SECTOR OR STRATEGY ANALYSES. CERTAIN STUDIES VERY IMPORTANT TO THE MISSION AND THE HOST GOVERNMENT FOR PD AND S APPLICATIONS MIGHT ALSO BE CRITICAL TO HAVE IN PLACE IN THE EARLY STAGES OF PROJECTS STILL IN DEVELOPMENT. THE SAME COULD BE TRUE, ALTHOUGH LESS FREQUENTLY UNDER CURRENT PD AND S USAGE, FOR CERTAIN TYPES OF EQUIPMENT. ALTHOUGH IT IS NOT CLEAR THAT WE WILL HAVE ADDITIONAL PD AND S FUNDS TO WORK WITH, MISSIONS SHOULD EXPLORE WAYS OF USING PD AND S FOR THIS SORT OF ACTIVITY.

4. CARRYING THE HEALTH PROJECT EXAMPLE FORWARD, PD AND S MIGHT BE USED TO SEND A FEW PARTICIPANTS TO SHORT COURSES SO THEY COULD BE ON THE JOB BY PROJECT INITIATION, TO OBTAIN SHORT-TERM TA TO CARRY OUT A REGIONAL DEMOGRAPHIC ANALYSIS, TO HIRE A CONSULTANT TO SHARPEN THE SKILLS OF LOCAL STATISTICIANS, AND PERHAPS TO PROVIDE A SMALL COMPUTER TO PROCESS NEWLY GENERATED DATA. ALL THESE WOULD NORMALLY BE FUNDED LATER WITH PROJECT FUNDS, BUT ALL WOULD BE VERY USEFUL TO HAVE IN PLACE IMMEDIATELY AFTER PROJECT SIGNATURE. AND ALL COULD BE INDEPENDENTLY JUSTIFIABLE UNDER PD AND S CRITERIA.

5. POST-PID MINI-PROJECTS. MISSIONS HAVE REQUESTED AND RECEIVED APPROVAL TO USE PROJECT FUNDS TO BEGIN SMALL ACTIVITIES ESSENTIAL TO A SPECIFIC POTENTIAL MAJOR PROJECT WHILE THE PP WAS STILL BEING PREPARED. SUCH LIMITED ACTIVITIES MUST BE INDEPENDENTLY-JUSTIFIABLE PACKAGES WHICH WOULD MAKE COMPLETE SENSE EVEN IF THE MAJOR PROJECT WERE NOT APPROVED. NO SEPARATE PID-PP

PROCESS WOULD BE REQUIRED SINCE THE ADVANCE ELEMENTS ARE INCLUDED IN THE PROJECT DOCUMENTATION FOR THE

BASIC PROJECT. BEING ABLE TO GET THIS SORT OF FLYING START CAN BE NOT ONLY EFFICIENT, BUT ESSENTIAL TO THE TIMELINESS AND ULTIMATELY THE SUCCESS OF THE LARGER PROJECT.

6. THIS ARRANGEMENT COULD SPEED OUR HEALTH PROJECT EXAMPLE BY SENDING LONG-TERM TRAINEES OFF A FULL ACADEMIC YEAR EARLIER. SINCE IT WOULD ALSO MEET 611(A) CRITERIA, IT COULD BE USED, AS PO AND S ORDINARILY WOULD NOT BE, TO ORDER FOR THE SERVICE INSTITUTION A NUMBER OF VEHICLES FOR RURAL SUPPLY WHICH COULD ALSO BE WELL USED SHOULD THE LARGER PROJECT NOT MATERIALIZE.

7. COMMON-ELEMENT PROJECTS. ONE OTHER POSSIBILITY WHICH IS MORE BROADLY USED IS FRAMING A SEPARATE PROJECT TO INCLUDE ALL MISSION REQUIREMENTS FOR ONE COMMON PROJECT ELEMENT, SUCH AS TRAINING, THEREBY REMOVING THIS ELEMENT FROM SUBSEQUENT INDIVIDUAL PROJECTS. (IT COULD ALSO BE USED FOR TRAINING PURPOSES UNRELATED TO OTHER PROJECTS.) THIS ALLOWS THE MISSION TO HAVE IN PLACE A MECHANISM FOR MAKING ADVANCE ARRANGEMENTS AND RAPIDLY DISPATCHING PARTICIPANTS AS SOON AS IT BECOMES CLEAR THIS IS JUSTIFIED. A SIMILAR ARRANGEMENT FOR TA IS ALSO A POSSIBILITY.

8. LOCAL IQC'S. SEVERAL MISSIONS HAVE USED IQC'S WITH LOCAL FIRMS -- MANAGEMENT, SOCIAL RESEARCH, ACCOUNTING, ENGINEERING -- TO OBTAIN LIMITED AMOUNTS OF CONSULTING SERVICES, WHERE SUCH SERVICES ARE AVAILABLE LOCALLY AT ACCEPTABLE QUALITY. THIS ARRANGEMENT ALLOWS MISSIONS TO DO "MORE WITH LESS" BY SAVING STAFF RESOURCES, SAVES TIME AND MONEY OVER MORE EXPENSIVE U.S. CONSULTANTS WHO MUST ALSO TRAVEL, AND IS FASTER AND EASIER TO MANAGE THAN INDIVIDUALLY-NEGOTIATED CONTRACTS FOR SERVICES.

9. MISSIONS MUST, OF COURSE, BE AWARE THAT THEY CANNOT EMPLOY THESE INSTRUMENTS TO AVOID THE CONGRESSIONAL NOTIFICATION PROCESS OR COMPETITIVE BIDDING PROCEDURES. FURTHER, FRAGMENTATION OF PROJECT ACTIVITIES CAN CAUSE MANAGEMENT DIFFICULTIES DOWNSTREAM.

10. THERE IS POTENTIAL OVERLAP BETWEEN THESE VARIOUS POSSIBILITIES, AND IN SOME CASES BETWEEN THEM AND EXISTING DEVICES SUCH AS AID/W IQC'S. IT IS NOT LIKELY THAT ALL WOULD BE REQUIRED AT A SINGLE MISSION. CHOICES WOULD VARY WITH PORTFOLIO, PREFERENCES, ENVIRONMENT, FUTURE PROGRAMMING, AND, OF COURSE, PRACTICES WITHIN GEOGRAPHIC BUREAUS. ANY OF THEM COULD BE USEFUL, HOWEVER, AND PARTICULARLY THOSE MISSIONS WITH LARGE AND ONGOING PROGRAMS SHOULD GIVE THEM PARTICULAR ATTENTION AS MEANS OF AVOIDING AWKWARD OR EVEN CRIPPLING DELAYS.

11. WE WOULD APPRECIATE ANY MISSION RESPONSES, INCLUDING PARTICULARLY COMMENTS OR EXPERIENCES WITH THIS TYPE OF ACTIVITY AND WILL CIRCULARIZE PARTICULARLY USEFUL CONTRIBUTIONS. SHULTZ

CHAPTER 9
IMPLEMENTATION PLANNING

CHAPTER 9

IMPLEMENTATION PLANNING

9A. Introduction

In accordance with AID policy, preliminary implementation planning, including as appropriate procurement planning, will have been accomplished as an integral feature of project development. These initial plans are prepared in sufficient detail to enable the examination of administrative feasibility and implementation support matters, including overall project scheduling and resource requirements. Such plans are seldom, however, prepared with the intention or in such detail that they will be used as is by project management to direct day-to-day project implementation activities. Further, more detailed planning is a function of the quality and quantity of information available to planners. Reliable information or estimates, e.g., when an Agreement is to be effective, the duration and scheduling of certain implementation tasks, may not be obtainable by project designers. Because of such constraints, and since negotiated projects may have some adjustments, e.g., timing, responsibility for inputs, project planning is usually divided into two stages: "pre-project planning" and "operational planning."

For purposes of clarification, "pre-project planning" is the initial planning which takes place during design and negotiation phases. "Operational planning" is the more intensive and extended type of plannning activity which follows signature of the Agreement and is needed by project management for the direction and control of day-to-day implementation tasks. Although "operational planning" is an outgrowth of and builds upon "pre-project planning," and the two are therefore closely related, their purpose and content differ sufficiently to warrant separate discussions.

9B. Pre-Project Planning

1. Purpose

The purpose of pre-project planning is to help define project elements, implementation methodology and timetable and enable designers and reviewers to assess overall implementation feasibility. Pre-planning also provides a mechanism through which AID, the Borrower/Grantee (B/G) and other participants jointly identify specific implementation tasks, e.g., procurement of

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technical services, opening of a revolving fund, and agree to the assignment of responsibility therefor. Development of initial project plans and agreement among the participants, together with the Administrative Analysis described in Chapter 3, Appendix G, are necessary to support the Authorizing Official's conclusion that a project can be implemented as designed.

2. Content of the Plan

The pre-project implementation plan should contain all of the information necessary to meet the purpose described above. It should also be in itself an end product of joint development efforts on the part of AID, the Borrower/Grantee and other participants. It may be a brief and direct plan covering all aspects of a simple project, or it might be a multi-faceted aggregation of subsidiary type plans, schedules and statements of responsbility for a complex undertaking, e.g., integrated rural development. In any event, the "plan" must identify:

-- major elements of the project, including inputs and outputs associated therewith;

-- proposed scheduling or sequencing of such elements;

-- allocation of responsibility for inputs and/or outputs among participants, including estimated costs;

-- mechanisms for mobilizing or delivering inputs, i.e., the procurement/contracting/financing approach;

-- the management/administrative/coordination scheme;

-- financial planning;

-- evaluation planning.

One can recognize the above items as being some of the required elements of the project implementation plan. (See Chapter 3.) It is not meant that a separate "pre-project plan" necessarily be developed beyond the aggregate of certain information provided as part of the PP. It should simultaneously be recognized, however, that the PP is an internal AID document and, in many respects, will only be summarizing what might be highly detailed "pre-project" plans, schedules and procedures existing within the Borrower/Grantee or other participant organizations. The latter should be considerably more advanced than representations in a PP and will usually be the focus of detailed negotiations, a basis for developing the content of the Project Agreement Annex and the departure point for subsequent "operational planning." In summary:

-- the scope of pre-project planning should be a direct function of the complexity of the project and the levels of development of information and materials as discussed in this section and in Chapter 3, and

-- Pre-project planning must be an end product of collaborative development between AID, the Borrower/Grantee and other participants.

3. Planning Methods

Several elements of a pre-project plan will be developed as the design group proceeds to satisfy other requirements of project design, e.g., financing of inputs, specification of administrative responsibilities. Such requirements and appropriate methodologies are covered in Chapter 3 and its Appendices. The following is additional guidance.

a. Implementation Checklist

The preparation of the pre-project implementation plan should begin with a checklist of the items to be discussed and agreed upon with the B/G and other participants. Such checklists should include those items that are applicable to most projects (see list of typical implementation actions presented in paragraph B3C of Chapter 8 and select those, as appropriate) and actions not shown on that list that are determined essential for the implementation of a particular project or project element. Appendix 9C contains more detailed guidance on procurement planning, much of which is relevant to pre-project planning. (Appendix 9B reviews key implementation problem areas which should likewise be given careful consideration as the checklist is being prepared. Actions included in the checklist should be discussed with the B/G and other participants, as appropriate, a general implementation methodology agreed to and, to the extent possible, responsibility for specific items defined and recorded. That record can be used as the basis for presenting the implementation plan in the PP, understanding that not all items discussed need be included in the summary-type PP plan. It will be a matter of judgment for the drafter how much detail is necessary for an understanding of the plan and an assessment of implementation feasibility. The checklist of actions to be performed will also provide the basis for preparing an implementation schedule.

b. The Implementation Schedule

Major actions to be taken by the B/G, AID and other participants should be listed in the sequence in which they must occur, together with times (expressed in the number of weeks or months from signature of the Project Agreement) by which they are to be initiated and

completed. This is especially important for activities which are critical to project success and may require an extended period of time for completion, e.g., contracting, training, construction. Actions have to be arranged so that the sequence in which they must be initiated and completed can be understood, rather than, e.g., being grouped under functional headings. Continuing tasks, such as supervision of project staff, payments to contractors, should be covered in statements of functional responsibilities rather than being shown on the schedule. Less critical tasks (e.g., a series of minor procurement actions) might be shown only once with an indication of the beginning and end of the period during which all are expected to occur. Individual contracting or procurement actions that are particularly significant to project success, e.g., contracting with a firm for professional services, must be identified separately in the schedule since, often times, little can be done to implement the project before such contractor starts work.

Estimates of the time required to complete major actions, e.g., contracting for professional services, are likely to be more realistic if intermediate steps (e.g., advertising, prequalifying, issuing RFP's etc.) are outlined and the time required for each step estimated separately. Such detail need not be shown in the PP schedule, but should nevertheless be prepared as part of pre-planning because it will produce better estimates and be useful in establishing the operational plan discussed below.

Particular attention must be given to the interdependencies between different project elements to ensure that actions taken for the implementation of one mesh with those to be taken for implementing another project element. The use of a planning "network" is recommended for projects involving interdependent project elements because the network can better indicate the required sequencing of actions. The completed pre-project schedule of implementation actions may be presented in tabular, bar graph, or summary network form. (See Appendix 9A for guidance on "preparing bar graphs and "networking.")

9C. Operational Planning

1. Purpose

a. The purpose of operational planning is to provide management with a dynamic tool to support the direction, assessment and monitoring of project implementation. A plan designed to meet operational planning objectives would, in somewhat condensed form, also meet pre-planning needs. However, in all but the simplest projects, data required for an operationally useful implementation plan is seldom available at the time project design is finalized, the

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PP prepared, and the project negotiated. Operational plans should be an outgrowth of the pre-project planning and be expanded and periodically updated and revised as information becomes available during the various stages of implementation.

b. Since operational plans and schedules are intended for use by the B/G in managing and by AID in monitoring the project, they must be accepted by both parties as the basis for implementing the project. It is useful to formalize the acceptance of operational plans and project schedules by making them part of the Project Agreement Annex or, as they are later expanded, by attaching them to a PIL. Amendments or adjustments of operational plans should be done whenever necessary but they should be jointly reviewed for accuracy at least on an annual basis.

2. Content

a. An operational implementation plan must specify all actions to be taken to implement the project, indicate the times when actions are to begin and be completed, identify the resources needed to complete the tasks and the parties responsible therefor. Depending on the degree of control needed and the importance of an action within the overall implementation scheme, the scheduled start "time" of an activity should be clearly indicated, e.g., a week, a month, or a quarter. "Actions" should, where possible, be broken down into their component parts. These component parts should represent identifiable, measurable and manageable units. Particularly for contracting and procurement, all steps of the process and dates for their completion should be shown. Such detail is necessary to enable the B/G's project manager to exercise control. This level of detail is also needed by the B/G manager and AID project monitor so that they can predict slippages and take appropriate corrective actions. If the steps necessary to complete a given action are not scheduled separately and identifiable in reporting systems, delays can be discovered only at the end of a sometimes lengthy period. For example, if only the execution of a contract is scheduled, and, when that date arrives, it is belatedly discovered that prequalification procedures have not yet been initiated, the time lost (6 to 12 months) can probably not be made up no matter how much the process is speeded up. Similarly, if the date by which a contractor should have completed mobilization of its resources is not scheduled separately or reported on in a timely manner, and that event does not occur on schedule, it may be too late or expensive to apply remedial action. In establishing the operational plan, it is therefore necessary to think through what each party has to do, schedule all events which may affect meeting the overall schedule and identify those which can be influenced by timely follow-up, procedural adjustments or other measures which the Project Manager might take. Measurement and

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reporting systems must then be set up to keep project management informed as to progress with respect to the schedule so that decisions can be made when changes or problems arise. AID must be tuned into the information flow at some point so that effective monitoring can take place.

b. Planning for more complex projects which include several elements, or in which several contractors play a part and must interact, usually involves the preparation of a number of subsidiary schedules which are then combined and summarized in an overall, or "Master," schedule. The subsidiary schedules should contain all necessary detail while the Master Schedule might show only those events which will permit an assessment of overall progress -- an exercise of overall project management control. If networks are used in scheduling, the integrated Master Schedules must explicitly identify at what points delays occurring in events shown on one subsidiary schedule will affect events of another subactivity or the project schedule itself, e.g., affecting or changing the "critical path" of a network.

When using a "Master" schedule for more complex projects, every effort should be made to have subsidiary schedules prepared and operated by the organizational units responsible for that type or group of activities. This, of course, requires the use of a central planning team to insure that estimates and measurements are affected by each unit with enough uniformity to make the master schedule valid. How such subsidiary schedules and unit work plans are set up is a function of the project being implemented and which units or areas are expected to need the most control.

Subsidiary plans may be simple or complex depending upon the unit's responsibilities and experience of individuals using the plans, but the preference is to keep them simple. It is the strength and utility of subsidiary work plans that should command the attention of B/G managers and AID personnel because these unit plans foster better coordination between participants and support delegations of authority. By segregating these schedules, management can better focus on each unit's activities and how progress within the unit is affecting the overall project. A suggested general framework for segregating functional areas common to most projects is given below:

Subject	Contents
-- Master Plan/Schedule	Time-phased, diagrammed events or activities to be completed (by operational unit).

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-- Logistics Schedule	Materials and equipment required, including transportation, warehousing and site arrival sequence (and, as appropriate, lands for structures).
-- Procurement Plan	Procurement and contracting events for obtaining project goods, services and lands.
-- Manpower Schedule	Recruitment, training and personnel placement activities.
-- Financial Schedule	Commitment sequence, steps to install financing instruments and timing of major payments.
-- Administrative Actions	Schedule of important decisions, coordination actions, reporting arrangements, and transfers of authorities needed for management to be successful.
-- Evaluation Plan	Data collection activities, timing of reviews and actions.

Each of the above schedules is keyed in time to the Overall Plan and represents all supporting resources and actions to each event.)

A less complex project may combine the above planning "derivatives" into one or more integrated overall plan. However, experience demonstrates that B/G organizations seldom have all necessary background skills within the project management group nor do they always have the in-house authorities expected within a "western" project operation (e.g., foreign payments or opening of Letters of Credit may be handled only by a Central Bank). Therefore, integrated "western" type project planning may have trouble on the assumptions side or overlook some of the extra conditions or action steps. Regardless of how simple or detailed such plans or subsidiary schedules may be, they should fit the management style and needs of the B/G Since numerous implementation decisions are inherent in the formulation and revision of plans and schedules, they must be largely a product of the B/G and other project participants to receive acceptance and utilization. A less sophisticated plan or schedule that is developed, updated and used by a B/G is far more valuable to aproject than a complete and complicated "plan" that is "presented" to the project group by consultants or AID personnel. If

professional planning assistance is needed by the B/G and AID during project development or early in he implementation phase, it should be planned for and obtained. But, for reasons mentioned above, these skills should "support" rather than "substitute for" Borrower/Grantee preparation of detailed operations plans and schedules.

3. Methods for Preparing Schedules

a. A number of methods of scheduling are available. The choice between them should be based on considerations of suitability for the project to be scheduled, familiarity of the users with the scheduling method to be used and ease of updating the schedule. (See paragraph 6, below, on the latter point.) A simple, relatively unsophisticated schedule which everyone concerned can readily understand and use is better than one so unfamiliar in technique and appearance to the users that it is neither used nor updated.

(1) Table of Activities and Events. The simplest way of scheduling implementation activities and events is a tabular listing showing the activities or events in the sequence in which they are expected to occur and the time by which they should occur. This method is usually adequate for simple projects in which only few parties have action responsibilities.

(2) Bar Graph. When several activities are scheduled to occur simultaneously or overlap in time, presentation of the schedule in bar graph form has the advantage of giving the user a "picture" of the sequence in which activities should begin and end, i.e., the terminal points constituting an "event," and of their simultaneity or overlap. The latter aspect permits conclusions, even though not directly evident from the graph, as to the effect a delay in one activity may have on another. Preparation and reading of a bar graph is usually not difficult; it should, therefore, be considered as a scheduling method whenever projects of moderate complexity are being planned for.

(3) Networks

(a) Networks like CPM or PERT are ideally suited for complex projects in which numerous activities must be analyzed, scheduled and integrated. They have the disadvantage of requiring considerable expertise both for preparation and use; moreover, it is often time-consuming to update them unless they are computerized. As a practical matter, CPM and PERT methodology should be used only if the scheduling is assigned to a contractor familiar with its use and having access to a computer for periodic updating, and if the Implementing Agency has staff experienced with the methodology.

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(b) Simplified networks showing the relationship between project elements and specific activities are not too difficult to prepare, but their updating may be cumbersome and might therefore be neglected. They are, however, useful in establishing the initial project schedule, no matter in what form it is subsequently cast, because they show visually at what points one activity affects another.

c. Additional Guidance

Appendix 9A contains more detailed information on networking; additional information may be found in the "Training Guide for USAID Project Operating Support Systems," December 1977, published by M/PM/TD, and in numerous commercial publications.

4. Timing and Responsibility for Preparation

a. The signature of the Project Agreement marks the beginning of the project implementation period; its date is therefore the date from which all periods appearing in a schedule are normally counted. If the date of the Agreement is the reference point, it fixes the dates of scheduled activities and events. Preparation of the operations schedule can begin after AID has approved the project; but, at the latest, it would be started when the Project Agreement is signed. If they haven't been accomplished as "Closing Requirements" (see Chapter 6), the first events to be scheduled are those relating to meeting the Conditions Precedent in the Project Agreement. Events relating to initial contracting for professional services or the procurement of some equipment can usually be scheduled at this time because initial steps can probably be taken before Conditions Precedent have been met. (Some "pre-implementation" steps may already be underway; see Chapter 10.)

b. Subsequent events can frequently not be scheduled until a contractor for professional services, e.g., engineering, malaria specialist, has begun work. In many cases, such a contractor is given responsibility for preparing a "work plan" which should include a schedule of activities and events or, in the case of A/E contractors, to prepare detailed designs and a construction schedule. Schedules prepared by such contractors are frequently accepted in their original or, after discussion, modified form, as the official schedule for implementing the balance of the project. In such cases, scheduling inputs by the B/G or AID are minimal. If a contractor has responsibilities for only one project element among several, overall or other scheduling actions by the B/G are normally

required. One or more other contractors may submit schedules, in which case those schedules must be integrated, or, if no other contractors with scheduling responsibilities are involved, separate schedules for the remaining elements must be prepared by the B/G and integrated into an overall schedule.

c. Depending on the experience of the Implementing Agency, it may be able to assume most or all of these operational scheduling responsibilities. If the B/G Agency needs assistance, it might be provided by planning consultants, or the AID Mission may be called upon to assist the B/G. In extreme cases, AID may have to assume responsibility for this task. Since planning and scheduling are integral parts of the project management function, they should always be carried out in close collaboration with the Implementing Agency project management group.

d. It is clear from the foregoing discussion that preparation of the operational implementation plan is in most cases a task that stretches over a considerable period of time. It is, therefore, advisable that the plan be prepared first to cover only those activities and events which can reasonably be estimated and must quickly be controlled shortly after the Project Agreement is signed. These partial plans should be promptly agreed to and implemented by the B/G Agency since slippage controlled at the beginning of a project has been proven to be the most potentially cost-effective of management actions over the entire project life cycle. Scheduling of the balance of the project can be completed and agreed upon as soon as remaining events can be estimated and scheduled.

5. Updating Schedules

a. Changes in the Project Environment. Besides recognizing the advantages of detailed planning during initial implementation phases, AID accepts that projects take place within dynamic environments and that changes and re-planning will be the norm rather than the exception. If project management is to effectively pursue the achievement of project objectives under changing conditions, it will have to make adjustments in its implementation methods, plans and schedules. AID does not consider historical plans and schedules to be sacred and endorses their revision whenever necessary to support the effective pursuit of project objectives. (See Chapter 13, Project Modifications.) Because timing is important and planning or re-planning often accomplished under pressured conditions, continuous collaboration is encouraged between B/G , other project participants, and AID personnel. To the extent all parties are "current" on problems or changes being encountered and possible solutions thereto, planning for and the initiation of corrective actions can be accomplished more effectively.

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b. Updating. An implementation schedule is useless as a tool for managing and monitoring a project unless it is updated to reflect actual accomplishments. There are probably no projects in which all of the actual and scheduled dates were exactly the same. Updating involves not only inserting in the schedule "actual" for "planned" dates as they occur, but reviewing or assessing the impact which a delay -- or, occasionally, a speed-up -- may have on the overall schedule. This review should include an analysis of the necessity or advisability and cost of rescheduling other activities to permit, if possible, adherence to the overall schedule or, at least, to mitigate the negative effects of a change. Such reviews and analyses will be of little value if schedules are not updated periodically or, at a minimum, whenever a substantial delay in an event becomes apparent. Updating schedules and changing the scheduled sequences and durations of activities are essential elements of project management. Having to change a schedule should, therefore, not be viewed as a sign of "failure" to maintain progress. If done after a thorough analysis of the situation and with the intent of optimizing remaining project actions, schedule changes can be evidence of good project management. Besides, from the viewpoint of AID monitoring, periodically comparing actual accomplishments with schedules provides an opportunity for dialogue and consultations with B/G agencies and contractors directed toward activity forecasting and finding the most cost-effective approaches for completing the remainder of a project.

Updating schedules requires first noting on the existing schedule actual accomplishments. In bar graphs, this is usually done by adding to the bar representing the scheduled duration of an activity (usually shown in outline) a second bar (usually shown solid) representing the actual duration. (Symbols may be used to indicate specific events if the period covered by the bar includes several related events.) As noted earlier, updating complex PERT or CPM networks usually requires technical expertise and/or a computer. Tabular schedules can include a separate column in which actual dates are recorded. The most important issues for the user are, however, to establish where a project is at any point in time and to be able to forecast certain or likely delays, their potential impact, and the exploration of remedies therefor.

6. Use of Schedules During Implementation

Planning and scheduling, like any management tool, may not produce the desired results unless it is properly chosen for the task, used within its technological limitations and supported by other actions or elements essential to the implementation process. Planning is of little value without objective management analysis and decision making, timely action taking and periodic evaluative assessments.

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Many good operations planning techniques (PERT, CPM, GANTT, etc.) have been developed to minimize planning and scheduling problems, but they are often only productive if applied by trained people within the proper environments. They also entail underlying preconditions such as participant experience, availability of resources and delegation of authorities among all personnel in charge of subactivities. If the B/G management group doesn't have some of these capabilities or the project manager won't or can't delegate authority for decisions and actions, then these sophisticated planning tools may become little more than an interesting chart on the wall that is quickly outdated by the passage of time. For certain types of projects, e.g., institution building, the mechanistic application of a detailed plan may result in all subactivities being accomplished in an orderly and purposeful manner. However, the objective of the project. e.g., to build people's capacities to function together, may be overrun. Many activities have been well planned but encountered serious implementation problems because scheduling was unrealistic, resource allocations inadequate and/or the project management team spread too thin for daily control.

Nevertheless, many unsuccessful actions could have been kept under control or guided to achieve intended objectives had management been informed on progress and had adequate plans and schedules been available to support daily decision making. Allocation of scare resources, coordination of participants and management of changes can seldom be made correctly if a tool isn't available with which to evaluate cost and time implications of different decision alternatives.

7. Scheduling Problems

a. General. Planning and the implementation of individual subsidiary schedules can be a problem in most any project. However, certain schedules or areas historically attract more than the average share of mishaps, i.e., procurement, contracting, financial operations. These areas are beset with more problems because they:

— usually have far more sub-activities to be implemented;

— are usually widely dispersed geographically and more sensitive to external factors and therefore less controllable;

— require more elaborate communications and coordination linkages;

— represent areas of inexperience and inadequate authority to act independently within both the B/G Agency and possibly AID;

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-- are traditionally the most restricted in that B/G and AID procedures often dictate how actions are to be accomplished.

Since communications and reporting are fragile or at best somewhat delayed features of most project management systems, problems arising from the above areas are difficult to forecast. The end result is a mangement problem that can cause delay to the overall activity or increase costs. Other typical scheduling and implementation problem areas are discussed in Appendix 9B.

b. Accuracy in Scheduling and Measurement. Even though there are many potential problem areas related to planning and scheduling, the two most critical weaknesses are: (1) overly optimistic designs and schedules, and (2) untimely or inaccurate measurement and reporting. Many projects do not keep up with their schedules, experience cost overruns or fail to deliver an adequate measure of benefits because of internal management deficiencies. However, many projects appear beset with like deficiencies but, in fact, are performing quite well under the circumstances. The only problem may be that the scheduling or expectations are inaccurate, i.e., not up-to-date, or unrealistic. The pursuit of overly optimistic plans and schedules can result in management or financing errors or delays, e.g., ordering too many supplies, running out of funds for certain contracts, that are just as costly as those resulting from lackadaisical pursuit of properly scheduled activities. Thus, when projects are not meeting schedules and budgets, planners and managers should simultaneously check the paper projections as well as operational conditions to be sure that corrective actions will in fact be realistic and cost-effective. In this respect, cost and scheduling control are possible only by controlling the physical things which cost money and take time. Cost control is not achieved through the zealous and abstract pursuit of (possibly unrealistic or incorrect) plans and budgets. Considerable thought and attention must also be given to measurement and reporting/information systems to ensure that the project management group, and the AID monitor, have accurate and timely information on project activities, especially when the undertaking is more complex and activities are widely dispersed geographically. As much energy should be invested in the establishment and operation of a good reporting system as goes into the planning and scheduling/rescheduling of project elements.

c. Procurement and Contracting Control. For many projects, procurement planning and control may be as important as all other aspects of planning combined. The AID-financed portion of most projects usually involves the procurement of goods and services from within or outside of the recipient country. The timely arrival of such inputs can become such a problem that the B/G Agency has little

time to manage inputs to produce the intended outputs and then benefits. It is for these reasons that procurement planning is given special emphasis. Appendix 9C provides additional guidance on the design, planning and implementation of procurement actions. As noted in Chapter 3, if a project envisions extensive or complex procurement actions, a separate procurement "plan" or subsidiary schedule must be developed. There are usually a number of options, e.g., nationality and source authorities, procedures, which have to be examined to arrive at a procurement approach which meets the needs of the project and satisfies the legal requirements and conditions of the B/G and AID. All of these factors should have been researched prior to authorization and negotiation of the project. However, as noted in Appendix 9C, some inputs may only be specified after the project is underway, therefore completion of procurement planning and the control thereof will be significant responsibilities to be addressed during the development of initial operational plans.

d. Financial Planning

(1) Financial planning has three principal segments, i.e., budgeting of funds needed for implementation of the project, the installation of financing instruments which will make such funds available for disbursement, and financial/cost reporting.

(2) Budgeting usually involves both the B/G and AID because both normally must make funds available for the project. Budgeting may also require actions on the part of other project participants. Most of AID's budgeting actions are completed by the time a project is authorized. However, additional budgeting actions will be needed if projects are incrementally funded. In that case, funds needed in years following the one in which the project is authorized must be included in AID's budget requests. Such actions will have to be planned for and carried out to avoid problems or delays in the project. The B/G or its Implementing Agency usually does not include in one year's budget all the funds it undertakes to provide. Such contributions are usually made available from annual funds. It is, therefore, important to agree with the B/G when and for what amounts it has to obtain a budget for subsequent implementation years. Budgeting by the B/G and other participants likewise usually involves actions which must be planned, implemented and monitored.

Budgeting by the B/G and, to the extent needed after the authorization, by AID is based on a forecast of the expenditures expected to be made in a given future period. Expenditure forecasting, in turn, presumes the existence of an implementation schedule from which the amounts needed to provide scheduled inputs (such as land acquisition, payments to contractors and suppliers, the administrative costs of the Implementing Agency, etc.) can be deduced. An "expenditure budget" thus is the connecting link between the implementation schedule and budgeting.

9C7d(2)

Expenditure Budgets, also called Disbursement Schedules, are initially prepared during project design and presented in the PP (see Chapter 3 and its Appendices.) They must be reviewed and updated as soon as additional information becomes available on contracting, procurement and other project expenditures (actual cost versus expected cost), and periodically thereafter, to provide a current picture of expenditures yet to be made. An up-to-date expenditure budget is indispensable for developing an estimate of the "cost to complete" for each element of a project. "Cost to complete" estimates must be accurate to permit judgments as to the adequacy of funds originally agreed to be provided for the project by the B/G, AID and, if any, other participants. B/G and AID personnel must be able to accurately forecast final budget needs of each project element (and recurrent cost needs) well before a project reaches the end of the implementation stage. If final project costs and recurrent costs are not properly covered, the project could suffer extensive delays in or even be thwarted in its "operations" or benefit generation phase.

(3) Disbursements: Individual disbursements cannot be scheduled independently because their timing depends on the occurrence of other events, such as partial or complete performance by contactors or suppliers. Planning for disbursements, other than in the context of expenditure budgeting discussed above, relates primarily to the development of procedures for establishing disbursement instruments (e.g., Letters of Commitment and Letters of Credit) and for making payment to contractors and suppliers (e.g., certification by the B/G of invoices or approval of vouchers by AID when required). The disbursement techniques which are used by AID are discussed in Chapter 3 and Handbook 19. Some steps in the overall process must often be accomplished by parties other than AID and the B/G Agency (e.g., opening Letters of Credit through a Central Bank or commercial bank); therefore careful planning and monitoring of such actions are needed. Cumulative disbursement schedules for each major project element and for the overall project itself need to be estimated by quarter and actual disbursements compared therewith over time. Keeping such planned versus actual disbursement schedules and comparing them with physical progress are key features in cost to complete forecasting and cost control activities.

8. Organizational Arrangements

Beyond planning for activities and events which must be undertaken during implementation, project management must often plan for and make organizational arrangements to get itself started and the work done. The basic step in this management exercise is to divide up overall responsibilities and functions and assign them to appropriate

9C8

organizational units and/or participants. Along with such assignments of responsibility (and subsidiary plans and schedules) must go the basic resources for pursuing them, i.e., the personnel, material and financial resources. Such is often complicated and can require separate action and coordination plans.

Delegations of authority must be compatible with assigned responsibilities. Organizational arrangements must be made with a view toward the coordination and/or management capabilities of the project management group. If subsidiary activities are well planned, workloads properly assessed and then matched with organizational resources, the direction and coordination burdens of project management will be lessened. The project team must, however, have unit measurement and reporting mechanisms which will keep everyone adequately advised on the status of activities and identify deviations from plans and schedules in a timely manner. Progress targets and a well-planned and supervised project acounting and information system will normally provide the data needed to coordinate activities.

APPENDIX 9A

GUIDANCE ON IMPLEMENTATION PLANNING

The AID project officer is responsible for seeing that adequate implementation planning is being accomplished. Such plans should be based on general recipient country experiences as well as the project's specific methods and requirements for resources, personal services, training, and commodities. A clear understanding of the environment in which a project will operate is also an essential ingredient for realistic planning. Project plans should be developed with full participation by the cooperating country ministries and, when indicated, appropriate multilateral assistance agencies. If an implementation agent is to be used, e.g., consulting firm, detailed planning should often await the consultants' inputs. This will further their agreement, understanding, and support for the scope, aims and manner of implementation of the project.

The implementation plans and schedules developed for the PP (see Chapter 3) will require verification and updating when implementation of a project begins. More detailed plans than were possible at the PP stage must be developed shortly after project approval or obligation so that project management can begin the day-to-day direction of project activities without any loss of momentum.

Implementation plans will vary depending on the type of project involved, its complexity, and the skills possessed by the participating parties. At the minimum, however, they should indicate the scheduling of all required events and activities and the dependent relationships between them. Besides the planning of events that lead to achievement of objectives, the project management group must often plan the internal steps of the event so that it can in fact happen. In any case, plans should provide management with the information necessary to direct the work in an efficient manner, determine progress at any point and focus on upcoming activities critical to the timely and cost-effective achievement of the project purpose. Information on PERT, bar graph (GANTT charts) and CPM planning approaches is provided in this Appendix.

For the more complex projects it may be desirable to use a networking system as a tool to assist in the management of the project implementation. Such systems should be a part of the Implementation Plan and maintained by the B/G, its consultant and/or AID project manager, as appropriate. The value of such systems will depend on the ability of the B/G and/or AID to develop and maintain them and then use them as a tool

of project management. Both Capital and Technical Assistance Projects can utilize them in a variety of situations. The following are brief descriptions of three of the more commonly used planning systems. Various training manuals such as the PERT/CPM/LPB Project Management Systems for Economic Development (published by A.I.D., third printing January 1975, reference library #658A265d) will provide information on how to establish and use these systems. Other sources should be consulted for guidance on the organizational structures and management information systems needed to support these schedules. It should be kept in mind, however, that none of these systems makes decisions, they only identify activities to be undertaken and provide a basis for forecasting, the measurement of progress and decision-making by management.

PERT HIGHLIGHTS

PERT IS A SYSTEM FOR MANAGEMENT BY OBJECTIVES, IT

- Improves communication and coordination
- Aids in planning
- Establishes sequence and dependency between significant project activities
- Assists in estimating time, money, manpower and other resources required
- Provides for realistic scheduling
- Provides a structured reporting system for management during implementation
- Displays planning, and status against plans, in a simplified graphic manner for easy comprehension
- Highlights areas for management attention
- Permits rapid overall program analysis
- Points up potential schedule slippages before the fact
- Indicates the significance of current slippages and their probable impact on future events
- Assists in evaluating targets, risks and rewards in Incentive Contracting
- Supplements other management aids

In short, PERT enhances Management's ability to plan and measure progress against objectives.

HOW TO PERT - 1

BUILDING THE NETWORK

Start by making a checklist of the project, detailing the major objectives and sub-objectives that are required to successfully attain the project's goals. These can be substantive hardware items, or they may be intangible elements. The essential thing is that they be identified in terms of WHAT is required.

The checklist resembles an organization chart. It does not reflect the physical organization of people or functions within a project, but rather is a means of thinking about the project as a whole. It is in effect, an organization chart of the project, and the elements essential to its attainment.

At different levels of abstraction, more and more details can be identified for management consideration. The greater the detail this process is carried to, the less likely it is that some essential element will be overlooked. On the other hand, good judgement is required because it is usually not necessary to itemize a project down to the last "horseshoe nail" in this manner in an over-all plan.

As a checklist, this is invaluable in coordinating with others. It ensures that someone is concerned about everything considered essential to the project as it can be used as a reference for assignment of responsibilities.

Having identified WHAT has to be considered, and in how much detail, the HOW must now be determined. This is a process of reviewing the checklist, consulting with the experts in each area, and developing a special type of flow process chart of the significant activities (or tasks) that must be accomplished in order to attain the end items listed. The chart developed is called a network.

In building the network you must establish what has to be done before another activity can start, what can follow after an activity has been completed, and which activities can be carried on concurrently.

No times should be considered at this stage. Only the sequencing and dependency of tasks in relation to one another, and significant events or check-points in the project.

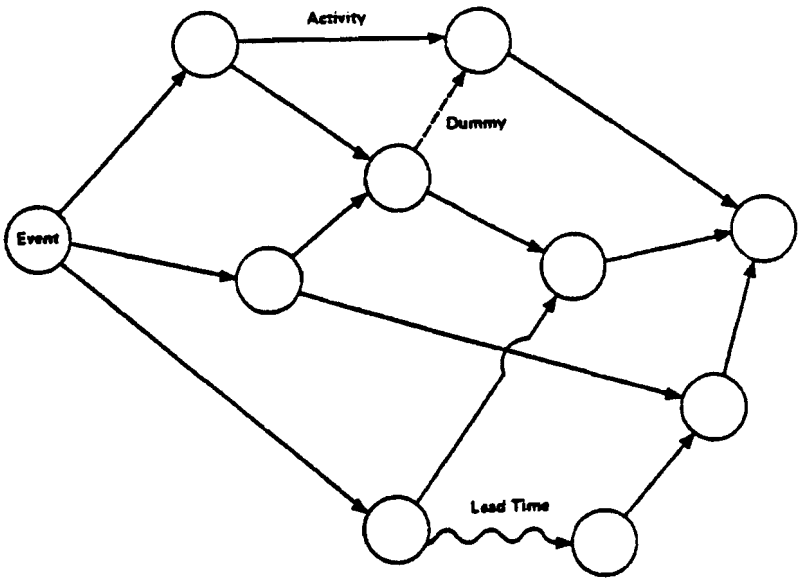
The network can be developed from the end objective backwards, from the start forward, or from any intermediate point in either direction. However, when completed, it should be audited, to ensure that nothing significant has been omitted, that all activity flows from left to right, that there are no loops, and that everything relates to the ultimate end objective.

HOW TO PERT – 2

NETWORK DEFINITIONS AND SYMBOLS

- A NETWORK is a project plan in graphic form
- A network consists principally of EVENTS and ACTIVITIES
- EVENTS are represented on the network by circles, squares, triangles, etc. and are check points in the project when things can be identified as having specifically occurred. Events consume neither time nor resources. They usually are indicated as Start, Complete, or Transfer Responsibility points.
- ACTIVITIES are time consuming tasks in the project. They are represented in the network by arrows. The tail of the arrow represents the start of the activity. The head represents its completion. Frequently, activities are not time scaled. That is, the length of the arrow has no meaning. In a non scalar network, calculations are made on the network to determine times. Activities start and end in Events.
- DUMMY ACTIVITIES are dotted arrows which indicate logical relationships and interdependencies between different events. They do not represent elapsed time, or activity.
- LEAD TIME is indicated by "hairpin curve arrows" where it is a fixed constraint between two events.
- MERGE POINT – where more than one activity terminates in an event.
- BURST POINT – where more than one activity originates from an event.

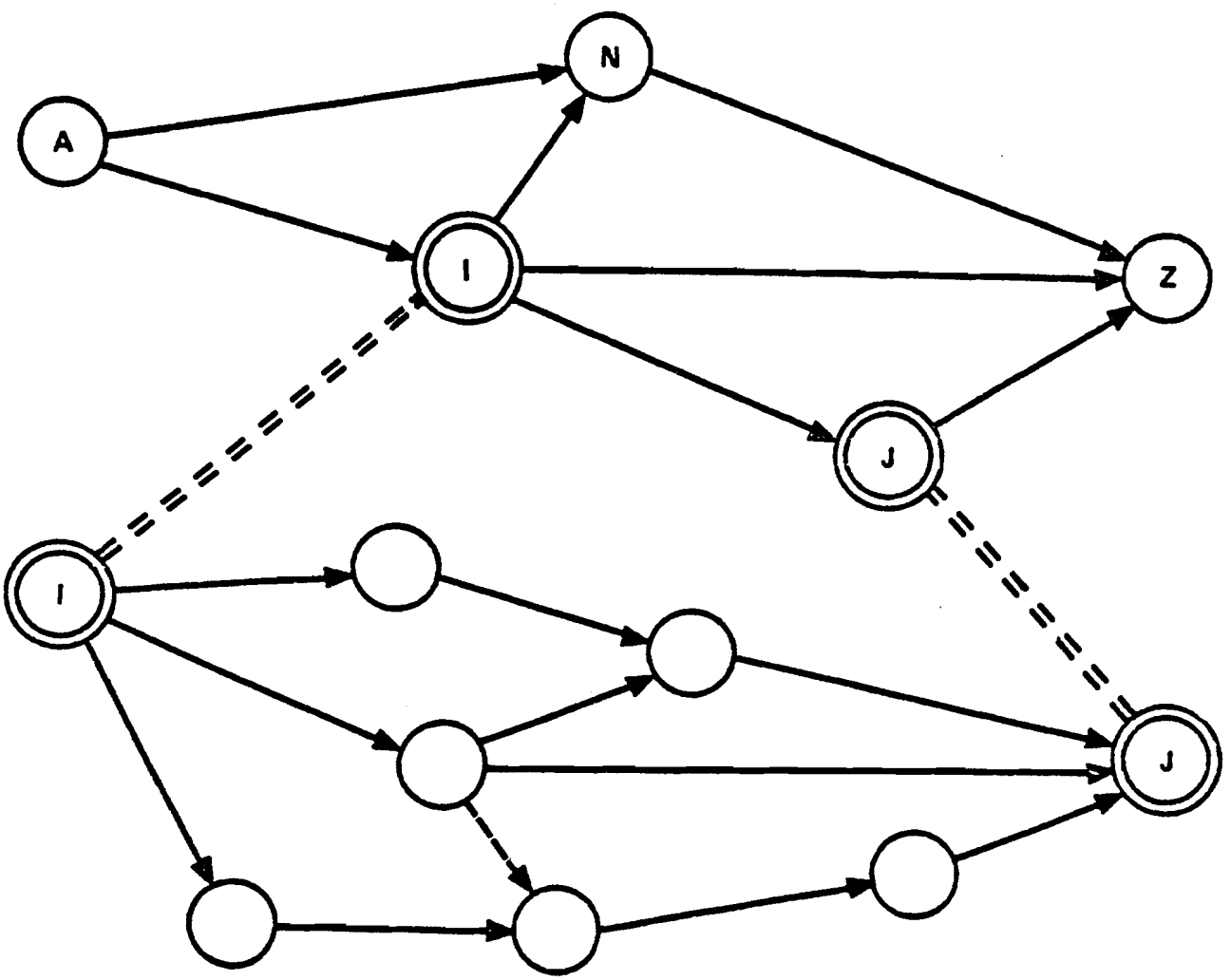
SAMPLE NETWORK

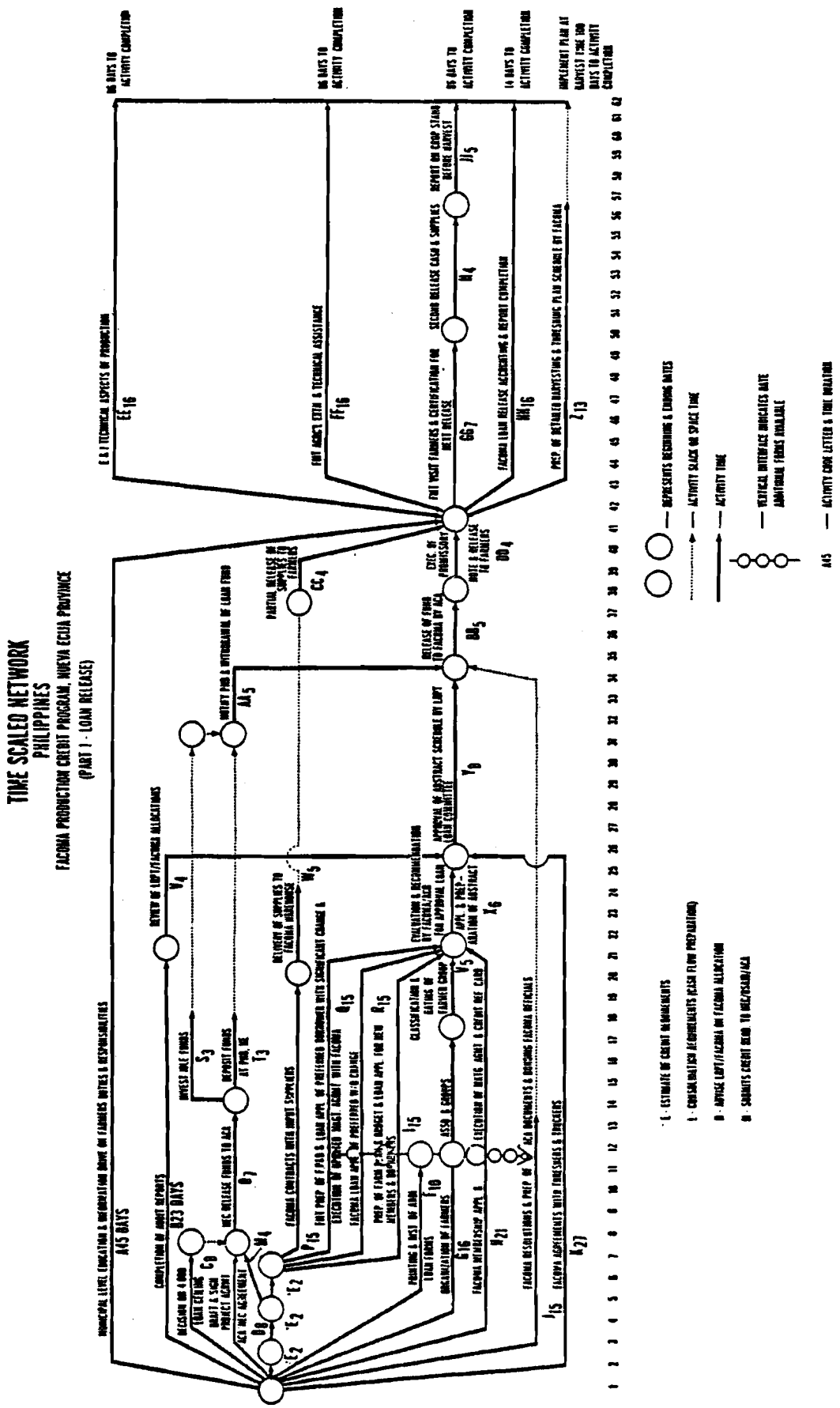


HOW TO PERT – 3

SUMMARIZING AND INTEGRATING NETWORKS

Often, for complex projects, it is necessary to build a whole hierarchy of networks for management purposes, summarizing at a general level for top management review, and breaking these summary activities down into "fragnets" for more detailed monitoring and management control at other levels.




TIME SCALED NETWORK
PHILIPPINES
FACIMA PRODUCTION CREDIT PROGRAM, NUEVA ECIJA PROVINCE
(PART I - LOAN RELEASE)
A45 DAYS
MUNICIPAL LEVEL EDUCATION & INFORMATION DONE ON FARMERS RIGHTS & RESPONSIBILITIES
COMPUTATION OF AMORT REPORTS
B23 DAYS
DECISION ON A LOAN
LOAN CEILING
WAIVE & SCHD PROJECT AGENT
ACK MEC AGREEMENT
MEC RELEASE FUNDS TO ACA
INVEST IDLE FUNDS
DEPOSIT FUNDS AT PNB, MC
REVIEW OF LBP/FACIMA ALLOCATIONS
FACIMA CONTRACTS WITH INPUT SUPPLIERS
FNT PREP OF F PAD & LOAN APPL OF PREFERRED BORROWER WITH SIGNIFICANT CHANGE &
EXECUTION OF APPROVED MAST AGENT WITH FACIMA
FACIMA LOAN APPL OF PREFERRED W/O CHANGE
DELIVERY OF SUPPLIES TO FACIMA WAREHOUSE
PREP OF FACIMA ANNUAL BUDGET & LOAN APPL FOR NEW MEMBERS & OFFICERS
PRINTING & DIST OF ABM
LOAN FORMS
ORGANIZATION OF FARMERS
FACIMA MEMBERSHIP APPL &
EVALUATION & RECOMMENDATION BY FACIMA/ACA FOR APPROVAL LOAN
CLASSIFICATION & RATING OF FARMER COMP
ASSN & GROUPS
EXECUTION OF MUTE AGENT & CREDIT REF CARD
APPL & PREP-ARATION OF ABSTRACT
APPROVAL OF ABSTRACT SCHEDULE BY LBPT LOAN COMMITTEE
RELEASE OF FUND TO FACIMA BY ACA
PARTIAL RELEASE OF SUPPLIES TO FARMERS
CTC OF PROMISSORY
MUTE & RELEASE TO FARMERS
FNT VISIT FARMERS & CERTIFICATION FOR NEXT RELEASE
SECOND RELEASE CASH & SUPPLIES
REPORT ON CROP STAND BEFORE HARVEST
FACIMA LOAN RELEASE ACCOUNTING & REPORT COMPLETION
PREP OF DETAILED HARVESTING & THRESHING PLAN SCHEDULE BY FACIMA
FACIMA RESERVATIONS & PREP OF ACA MECHANICS & DRYING FACIMA OFFICIALS
FACIMA AGREEMENTS WITH THRESHERS & TRUCKERS
E & I TECHNICAL ASPECTS OF PRODUCTION
FNT MONTH ESTM & TECHNICAL ASSISTANCE
IMPLEMENT PLAN AT HARVEST TIME 100 DAYS TO ACTIVITY COMPLETION
REPRESENTS BEGINNING & ENDING DATES
ACTIVITY SLACK OR SPACE TIME
ACTIVITY TIME
VERTICAL INTERFACE INDICATES DATE ADDITIONAL FUNDS AVAILABLE
ACTIVITY CODE LETTER & TIME DURATION
E - ESTIMATE OF CREDIT REQUIREMENTS
I - CONSOLIDATION REQUIREMENTS (CASH FLOW PREPARATION)
B - ADVISE LBPT/FACIMA ON FACIMA ALLOCATION
M - SUBMITS CREDIT REQ TO MEC/PCAMA/ACA

HOW TO PERT - 6

PRESENTATION BY BAR GRAPHS

Highlights

- Easy to draw
- Can be reduced to small scale
- Easy to comprehend; familiar to management and operating personnel
- Derived from network, therefore dependencies implicit
- Float and Slack are shown for each activity
- Bars can be grouped by functional work areas if desired

After the network has been calculated, and scheduled, a presentation to management and to line supervisors is often enhanced if the data is presented in the form of the more familiar bar chart.

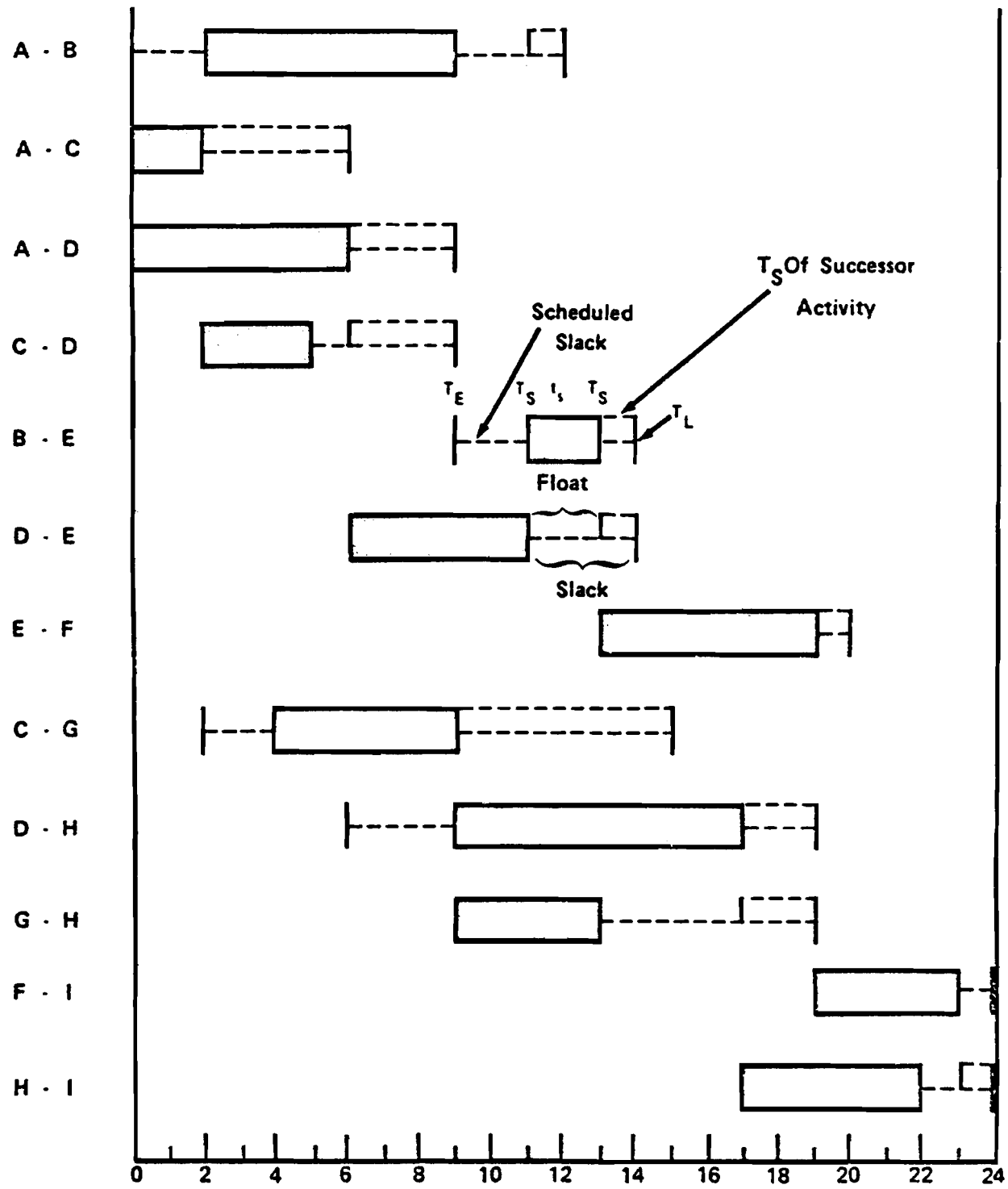
This can be done quite easily from either a non-scalar or a time scaled network by identifying the various activities on the "stub" in terms of their beginning and ending events, and plotting the activity as scheduled.

The principle advantage of deriving the bar chart from the network instead of proceeding directly to the preparation of a bar chart during the planning stage is that the interdependencies between activities and events is developed in the network and reflected in the bar chart. The impact of these constraints in terms of the critical path, float and slack can be shown quite clearly on the derived bar chart as additional information. Further, activities can be regrouped according to management's desires without cluttering up the picture with dummy activities, as would be necessary in using a network for presentation purposes.

The limitation of this format is the same as that of the time scaled network. It only represents a "still shot" of the project. As time overtakes events, new charts must be developed to present the latest situation, as reflected by the non-linear network "model".

BAR GRAPH - DERIVED FROM NETWORK

(Showing T_L And Scheduled Slack)



CRITICAL PATH METHOD (CPM)

CPM – WHAT IT IS AND WHAT IT CAN DO

CPM is a network based system which

- Provides the advantages of PERT,

plus

- Cost optimizing for activities

The Critical Path Method (CPM)* is very similar to PERT. It uses a network as a base, employs similar time calculations and the critical path concept. It is activity rather than event oriented, and its emphasis in use has been in the management of well defined projects such as highway construction.

The principal significant difference between CPM and PERT is in CPM's approach to cost management. In CPM, direct costs are estimated for each activity as well as time, providing management with a basis for optimizing time/cost tradeoffs.

Because CPM is used on activities which are generally definable in terms of time and cost, the approach has been taken to estimate using two times and two costs for each activity, and data for decision making as follows:-

T_n Normal Time

C_n Normal Cost

T_c Crash Time

C_c Crash Cost

Rate, or Cost per Week to accelerate $= \dfrac{C_c - C_n}{T_n - T_c}$

* Developed in 1957 by personnel of E.I. du Pont de Nemours & Co. and Remington Rand.

Obviously, "normal time" varies from situation to situation, but can probably best be equated in concept with the PERT "most likely" time. Normal cost then includes whatever direct costs would likely be incurred under these conditions - men, material, equipment. "Crash time" can similarly be equated to PERT "optimistic" time.

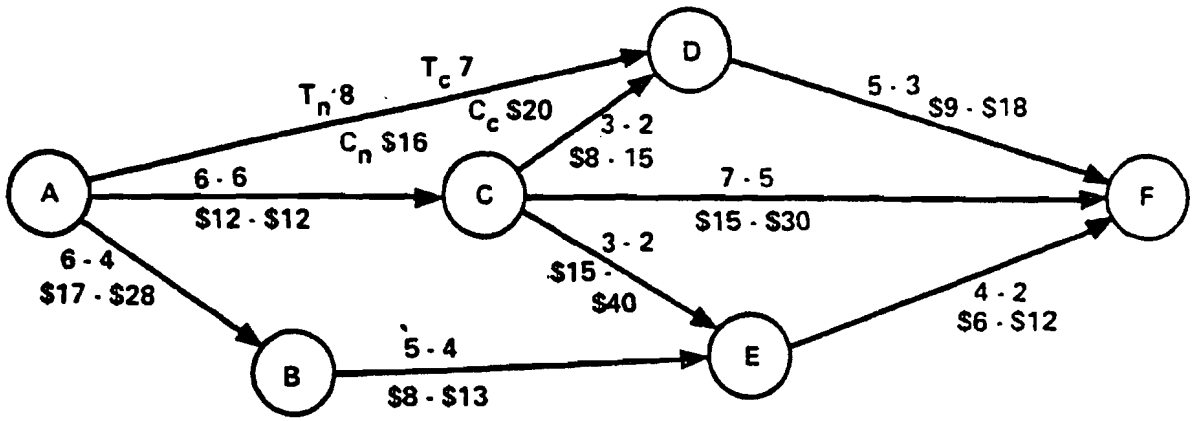
Usually, the crash time may be considerably less than normal time but the crash cost is likely to climb dramatically over the normal cost. This is because of such factors as extra personnel, overtime and/or equipment which may be necessary in order to speed up work. Some activities may be "either/or" situations. That is, instead of increasing incrementally from normal to crash, these may be the only options open.

Generally, in addition to costing different amounts and taking differing periods of time to complete, activities will vary in the rate of increase necessary to go from normal to crash conditions. These increases over time can be plotted for each activity, and "cost slopes" can be derived from the formula shown.

With this data, it is then possible to selectively crash critical activities only to the extent necessary, taking advantage of activity float and costs slopes to eliminate unnecessary costs. From the range of possibilities presented, the most economical plan can be developed, and the additional anticipated costs or savings can be compared for other time planning considerations.

Appropriate cost incentives for acceleration can also be readily determined by this method.

CPM - TIME/COST OPTIONS



From the data on the network a table is constructed as shown below:

Activity	Normal Cost	Crash Cost	Cost Per Week To Accelerate	Time Range To Accelerate	Actual Selection
E - F	6	12	3	2	/ /
A - D	16	20	4	1	
D - F	9	18	4.5	2	/ /
B - E	8	13	5	1	/
A - B	17	28	5.5	2	/
C - D	8	15	7	1	/
C - F	15	30	7.5	2	/ /
C - E	15	40	25	1	
A - C	12	12	–	–	
TOTAL COST	106	188	(20.5)	(4)	

NOTE: The above table has been compiled in ascending Cost per Week order.

CPM - TIME/COST TRADEOFFS

The network is calculated based on its normal times = 15 weeks
It is then recalculated based on its crash times = 11 weeks

Thus, if the project were to proceed with every activity programmed at the normal rate, it could be expected to take 15 weeks and cost $106. On the other hand if everything was accelerated to maximum crash time in order to complete at the earliest possible date, the costs would rise to $188.

However there would be unnecessary acceleration (and cost) in some activities because of the built-in constraints of the network. "Hurry up and wait" would occur in several activities because of built-in float time.

The following illustrates the CPM process:-

	Cost	Time
Critical Path: A – B – E – F	106	15
Accelerate lowest costing activity on the critical path: EF	3	–1
New Critical Paths:	109	14
A – B – E – F and		
A – C– D – F		
Accelerate lowest costing activities on the critical paths: DF & EF	7.5	–1
New Critical Paths:		
A – C – F		
A – C – D – F and	116.5	13
A – B – E – F		
Accelerate lowest costing activities on the critical paths: CF DF & BE	17	–1
New Critical Paths:	133.5	12
A – C – D – F		
A – C – F and		
A – B – E – F		
Accelerate lowest costing activities on the critical paths: AB CD CF	20	–1
All Paths Critical at this point	153.5	11

Now that the network has been reduced to the maximum crash time, attempting to crash beyond this point will cost additional money without gaining time. There is generally a sharp increase in cost per week as each successive week is gained, and more and more activities become critical. Occasionally instead of crashing the lowest costing activities, a higher costing activity which is common to more than one path may be crashed with an overall savings. In other words, one high cost activity may be cheaper than two lower ones.

Thus, the project can be planned for 11 weeks at a cost of $153.5—a saving of $34.5, or more than 18% in direct costs over "all crash"!!!

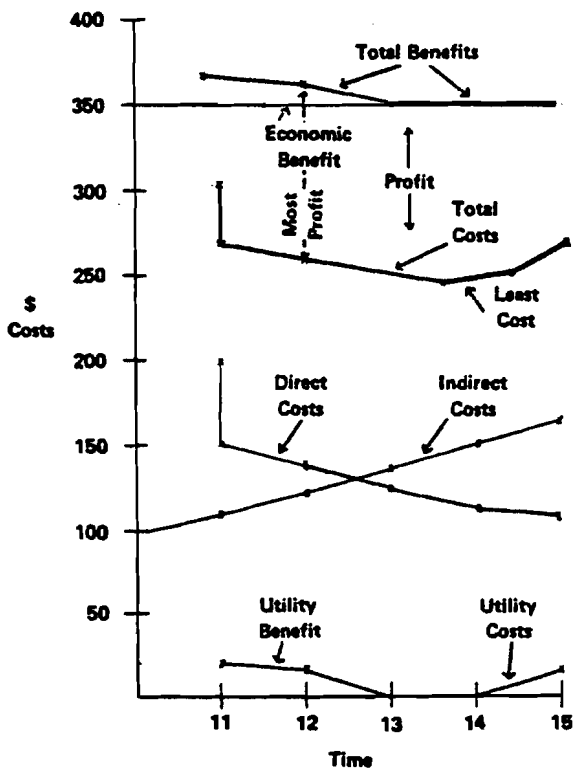
CPM TIME/COST OPTIMIZATION

To determine the optimum point for planning purposes, all costs and benefits should be considered. This can be done by constructing a matrix showing the following information for each alternative time:

1. Direct costs (just calculated)
2. Indirect costs (fixed overhead — salaries, rental of equipment and facilities, insurance, bonds, etc.)
3. Utility costs (penalties for late completion or delivery)
4. Total costs (the sum of direct, indirect and utility costs)
5. Economic benefits (gross income from sales, or contract delivery price)
6. Utility benefits (incentive bonus or payments for early completion or delivery)
7. Total benefits (the sum of economic and utility benefits)
8. Net profit (total benefits less total costs)
9. Benefit/Cost ratio

Project Time	COSTS				BENEFITS			PROFIT	BENEFIT/COST RATIO
	Direct	Indirect	Utility	Total	Economic	Utility	Total		
11	188	110	–	298	350	15	365	67	1.23:1
11	153.5	110	–	263.5	350	15	365	101.5	1.39:1
12	133.5	120	–	253.5	350	10	360	106.5	1.42:1
13	116.5	130	–	246.5	350	–	350	103.5	1.42:1
14	109	140	–	249	350	–	350	101	1.41:1
15	106	150	10	266	350	–	350	84	1.32:1

CPM - TIME/COST OPTIMIZATION



By examination, the optimum time can then be identified for either the least cost, the most profit, or the largest benefit/cost ratio, as desired. Of course, this is only meant to provide guidance for management. Managers may select any course of action they desire depending upon the circumstances surrounding the particular project in question. For example, it may not always be advisable to plan on crashing the last few activities in the project. It may be more expedient to crash earlier activities (regardless of cost) as an insurance factor against presently unforseen delays in later activities. Careful planning and analysis of possible alternatives ahead of time can assist management in making risks more calculated and less intuitive.

APPENDIX 9B

IMPLEMENTATION PLANNING — A REVIEW OF KEY IMPLEMENTATION PROBLEM AREAS

There are a variety of planning techniques available for use by AID and B/G project managers. How helpful these tools will be to project management will depend upon the quality of the planning tool and the skills and motivation of the user. Good management planning should cover:

-- What events must take place;

-- Who is responsible for action;

-- What resources are needed to accomplish events;

-- When events should take place;

-- What are the interdependencies among events;

-- How events should be accomplished;

-- What are the criteria for successfully completing events;

-- How the overall scheme of events is constituted and related to the rest of the project environment, and

-- When things aren't proceeding in accordance with the planned scheme, what events are involved and what are management's action alternatives.

Notwithstanding its potential benefits, planning can, in some instances, represent a negative drain on project management resources if it is improperly done or not used, or the project environment is so dynamic that a "control mechanism," i.e., a detailed plan, overly influences decision making to the point that the wrong task is accomplished just because it was the "next" event in an outdated plan. Thus makers and users of plans must be careful to have plans that are accurate and relevant to the situation being considered. If plans are not relevant and up to date, then managers might do better by reliance on objective and thorough assessment of problems, good judgment and reasoned decision making.

To help make and keep plans relevant and accurate, project planners and managers must be in close touch with daily project events and have a general appreciation for problems which can arise in the future. This information is essential to good forecasting. The project reporting system must keep planners informed on the status of specific events. Awareness of other country-specific program or project experiences will also help in forecasting and decision making. Notwithstanding, there are numerous general problem areas or bottlenecks that are common to development projects. A listing of some of the more common ones is provided below for information. Planners and managers should remain aware of such potential problem areas and include them in their consideration of relevant factors when making or amending project design and plans.

1. Project Design Deficiencies

Deficiencies in project design are an important cause of implementation problems. Therefore, one of the first steps in planning is to thoroughly review design assumptions and elements to ensure they correspond to the project environment. Correction of design deficiencies must be accomplished in time to avoid planning errors.

(Design deficiencies are most prevalent in people-oriented and complex projects in agriculture, education and health. Insufficient borrower involvement with project preparation has also been a contributing factor in design deficiencies.)

2. Unrealistic Planning

Many project designs are too optimistic regarding capabilities of participants, input levels required and when and how many outputs can be produced. Being too optimistic, or in some cases unrealistic, leads to planning and management errors that result in even greater implementation inefficiencies. If expectations and capacities aren't in reasonable balance, potentially sufficient management talents can be totally overwhelmed by the pursuit of false targets. Unrealistic scheduling must therefore be minimized. Planners must assess the validity of assumptions and other design factors and focus on targets that will stretch but not rupture input capacities and schedules.

3. Project Start-Up Period

The early period in the life of the project, i.e., planning, organizing and start-up activities, is dominant in determining the overall time schedule for implementation. In terms of control, this is the phase most responsive to the application of increased resources and normally the most cost-effective for accelerating. (PERT and CPM planning techniques

refer to this acceleration as "crashing" the activity.) Planners must get early phase activities mapped out and management must organize resources and start activities promptly or valuable time and money will be permanently lost.

4. Planning in Differing Sectors

There are substantial differences in implementation rates among sectors and, at times, differences between a project's physical progress and financial disbursement progress. Projects in education, human resources development, agriculture and health and sanitation can seldom be scheduled as early as in other sectors. Planners must distinguish between "project" or "objective" oriented organizations (e.g., a power agency) and "process" oriented organizations (e.g., a health ministry), because the latter usually have difficulty shifting their management styles to active scheduling and tight control of project inputs and activities. The planning techniques that work best for each group will probably be different because project and administrative actions will vary in their need for daily measurement and control.

5. Scheduling and Definition of Delays

There is no concrete and precise definition of "delay": A difference in timing between scheduled actions or events and real actions or events constitutes a delay. However, consideration must be given as to whether the difference is due to a planning error or an implementation inefficiency. The same question is valid when a project or element finishes "early" or "on time," i.e., the work may be efficient (or delayed), but it is not measurable in an abstract sense because the scheduling was too generous.

Planners must be objective and accurate when preparing schedules so that later measurements and comparisons will constitute meaningful information for project management. Many schedules prepared at time of project appraisal were intended as targets; therefore, planners must bring these targets in line with reality so that they represent best estimates as to what should happen during implementation. Sufficient time must be allowed for such essential activities as recruiting staff, hiring consultants, procuring equipment and materials and negotiating contracts, because significant differences between schedules and events often appear. Planners must also ensure that interim events or sub-activities are scheduled and acknowledged in the project reporting system so that management can take corrective action before a "delay" is finally incurred.

Planners should be responsible for planning and scheduling errors (paper delays). Project managers should be responsible for implementation inefficiencies which vary from reasonable plans and whose causes, in

retrospect, appear to have been avoidable (real delays). If a change has occurred in the project environment which requires a design, planning, or implementation change, planners and managers should jointly work out the change. (This latter situation is a project modification and should not, in most instances, be considered a "delay" even though the implementation schedule is changed.)

6. Typical Implementation Constraints

The following are additional factors that often contribute to planning errors and implementation inefficiencies.

- Failure to fully collaborate with the Borrower/Grantee, other donors and participants in project design and initial planning exercises;

- Problems or inadequacies during negotiations which failed to generate understanding and commitment by all parties;

- Shortcomings in adapting the project to the Borrower/Grantee organization or institutional framework, especially in the areas of management, decision making authorities and resources control;

- Designing projects that are too complex, or technically inappropriate;

- Encountering highly complicated or detailed procurement and contracting procedures, including cumbersome prequalification methods, bidding systems, and clearance processes prior to contract negotiations;

- Problems in contract administration, especially relating to controlling scopes of work, performance of contractors and timely payment for eligible expenditures;

- Inability to develop and operate an adequate logistics control mechanism which funnels inputs into the project on a scheduled basis;

- Failure to establish clear lines of authority and levels of responsibility among participants and donors;

- Inability of project organizations to recruit, train and retain qualified personnel;

- Reluctance by B/G to hire and utilize consultants for project activities, especially regarding project management assistance and positions which embody approvals for disbursements;

-- Problems in acquiring land titles or right-of-ways for project facilities, or the passage of laws enabling project implementation;

-- Delays in construction activities due to natural causes, equipment problems, union activity, delayed payments to contractors, etc.;

-- Difficulties with project financing sources and instruments, i.e., letters of credit, revolving funds, etc., and contractor financial problems;

-- Incorrect anticipation of participant and beneficiary responses (e.g., an over-estimation of risk-taking abilities of the beneficiaries), usually caused by a lack of understanding of local customs and conditions;

-- Changes in the political or socio-economic environment, including problems created by rapid inflation and political upheaval;

-- Inadequate provision for contingencies regarding both financial and physical inputs;

-- Delays in obtaining required approvals within B/G, donor and participant organizations and/or absences of requisite staff to perform other essential project support functions, and

-- General delays caused by procedural requirements established by B/G and donor organizations.

7. Guidelines for Improving the Transition from Project Implementation to Project Operations

Preparing for managing a smooth transition into the operations phase naturally begins during project design and is to be carefully covered in negotiations and planning. Such preparations should also be regularly coordinated with other implementation elements. However, the realities are that the initial phases or "physical" part of the project get more attention because they are tangible and of more immediate management concern. The following are a few suggested actions for maintaining perspectives on project operation needs and making the transition a timely and successful one.

-- Keep the "operating" phase and objectives in management focus all during early project activities.

-- Ensure that project planning recognizes all elements of operations and that scheduling "lead times," especially for technical assistance, training and B/G administrative and organizational development are realistic.

-- Check original project assumptions regarding operations elements and realign if necessary as the project environment or design changes.

-- Don't assume that B/G project construction personnel will be available to support training and start up activities. This is seldom possible owing to the demands of implementation problems and delays. (Also, don't assume that "operating" personnel can manage construction phases.)

-- Don't excessively delay the initiation of training/operations activities if construction is delayed, because preparations for training and operations are just as subject to extensive delays. The economic cost of an empty facility is usually far greater than of a few months of extra "trainee" operator salaries.

-- Reserve a sizeable contingency factor in the training and operations budget to cover salary extensions, losses of original trainees and unforeseen expenses.

-- Use "pilot" facilities for testing training assumptions and bringing trainees "up to speed" in actual operations wherever possible..

-- Expose future operations personnel to design/construction activities to increase familiarity and understanding of the physical "plants" within which they will work. Operation and maintenance will be enhanced.

-- Attempt to retain B/G construction phase personnel for maintenance support during operations.

-- Review the implementing agents' budget planning, appropriation and administrative mechanisms for obtaining and utilizing operating and maintenance funds.

-- Make sure the project operating cycle is compatible with the B/G budget cycle to avoid funding availability problems.

-- Review B/G or other donor guarantees for provision of timely and sufficient recurrent costs financing.

-- If the B/G entity is newly created, ensure that planned personnel systems and operating procedures are adequate to attract, retain and effectively utilize the skills required for operations.

-- Operations manuals and procedures for all equipment must be complete and translated, if necessary, and understood by the intended users.

-- Mechanisms must be set up for the future procurement, storage and utilization of capital equipment, consumables and spare parts.

-- If the entity requires external ingredients for operations (raw materials, etc.), review financing, materials availabilities, lead times and procurement methods for obtaining or stockpiling them.

APPENDIX 9C

PROCUREMENT PLANNING

1. General

Procurement planning is but one aspect of overall implementation planning. By definition it encompasses all actions to be completed relating to the ultimate delivery of goods and services that are inputs to the project. However, because procurement actions can be complex and few B/G Agencies have experience in the procurement of goods and services from overseas sources in accordance with AID or other donor's regulations, the AID-financed portion or that financed by others, can experience mishaps and delays which seriously reduce expected project benefits and/or impact. These potential problems can apply to both capital and technical assistance projects, regardless of funding sources. Because procurement problems are widespread and can be minimized in many cases through good planning and management oversight, AID requires most projects to have a procurement plan prepared as part of project development (see Chapter 3). This is a "pre-project" planning responsibility that should be carried through and refined as an important "operational" plan/schedule.

2. Procurement Considerations

Except for the most simple projects, procurement-wise, and those follow-on type activities wherein systems are already established and functioning properly, procurement planning must be a basic design consideration. Procurement matters should not be something "tacked on" to complete a design, but rather an integral feature of the design process. If it is treated in this fashion, the project may be adjusted to avoid many potential procurement difficulties, i.e., by keeping project implementation as simple as possible, instead of adding awkward procurement "solutions" to the AID and/or B/G Agency's management burden. The following approach should be used before the procurement plan is actually prepared.

- Outline the basic project and its expected administrative structure;
- Define the general responsibilities of the participants;
- List all inputs needed for the project including the goods and services to be procured;
- Develop a preliminary sequence of deliveries and inter-relationships between goods, services and other inputs;

-- Review estimated inputs to ensure they represent appropriate technology in both the near and longer term, e.g., capital saving features, recurrent maintenance aspects;

-- Determine logical and economic source/origins of the needed inputs;

-- Develop cost estimates for each input, including checking market sources;

-- Check donor and local contributions to ensure the financing package is adequate and flexible enough to cover procurement of items for which each will be responsible;

-- Based on expected source/origin and proposed financing responsibility, assess whether the individual inputs (and groups thereof) represent logical "procurement packages," for each donor, i.e., can such goods and services be procured economically and efficiently, given a particular donor or participant's rules and procedures;

-- Besides monies, rules and procedures, check whether a particular donor or participant's financing instruments and disbursement procedures are compatible with commercial practices or the type of payment procedures/controls envisioned for that part of the project.

3. Outlining the Procurement Plan

When the above process is completed, albeit in preliminary form, one is then ready to begin development of a procurement plan. A typical plan for a more complex procurement system might contain the following components:

-- A complete list of goods and services to be purchased, including detailed specifications and ancillary services, if any, and expected source/origin;

-- Integrated Delivery Schedule (including items to be provided "in kind");

-- Budget and Financing Scheme, indicating expected costs and responsible financier;

-- Procurement entities and scope(s) of procurement authorities and responsibilities;

-- Procurement methods and procedures to be used by entity, including approvals and waivers, if any, required by financing agencies;

-- Documentation requirements and flows (e.g., solicitation, contracting; insurance; customs papers; movement releases; reporting, payment documents; bonds, guarantees and instructional literature);

-- Payment procedures and disbursement schedules and controls;

-- Transportation/Logistics Control System, including inspections; marshalling; communications; movement control; freight forwarding; ocean/air/inland shipping; customs clearance; warehousing/distribution; testing and acceptance; property accountability and record keeping;

-- Contract administration/audit/closeout procedures.

Most projects would not have an elaborate procurement plan covering all aspects noted above, but it must be appreciated that every individual purchase is subject to the same general events and, therefore, control failures and delays. The uncontrolled purchase of a single item can result in many errors because there are literally dozens of steps inherent in the normal procurement/delivery process. The risks and cost of procurement delays must therefore be closely examined by designers and implementers alike and a procurement plan and management system developed to the extent judged necessary for each individual project. Many of the required procurement steps can be assigned to others to reduce the direct administrative burden of project management (i.e., make the supplier responsible for all delivery matters by contracting for items on a "CIF, Project Warehouse" basis); however, the transfer of such responsibilities may increase risk of unforeseen delays and therefore independent interim inspections and reporting would have to be strengthened. Notwithstanding, the best approach for handling the majority of procurement problems is to give the subject thorough analysis and treatment at the design and pre-project planning stages by getting assistance from procurement specialists, develop a good plan and then use it, along with other subsidiary schedules, to make timely decisions when unexpected or unavoidable problems arise.

4. Planning Elements

The following is a more detailed discussion of some of the procurement planning elements which, from experience, need close attention.

a. Procurement Responsibilities

(1). The initial division of procurement/contracting responsibilities, i.e., the contracting "mode," will have been arrived at as part of project design and pre-project planning. (For a discussion of this issue, see Chapter 8C3 of this Handbook and Chapter 3, Handbook 1B.) Decisions reached on the contracting "mode" will usually result in the assignment of procurement responsibility to the B/G, its agents, a U.S. Government entity or AID, or a combination thereof. The usual divisions, however, are between the B/G and AID.

(2) Procurement by the B/G

If the B/G assumes the procurement responsibility, it may either:

-- assign that responsibility to an agency of the government, either the Implementing Agency or a specialized "supply" agency;

-- retain a commercial Purchasing Agency in the U.S.; or

-- assign materials purchasing responsibility to a contractor retained primarily to supply professional services.

Under any of these options, the B/G retains ultimate responsibility. Care must therefore be taken that the contract between the B/G and a commercial purchasing agent or a professional services contractor (hereafter collectively referred to as "the contractor") clearly spell out:

-- whether the contractor is to purchase in its own name or on behalf of the B/G; the distinction may be important in determining whether the B/G has direct rights and responsibilities under contracts or purchase orders issued by the contractor to a supplier;

-- responsibilities for inland and ocean/air transportation of goods purchased;

-- conditions and mechanics of payment to be established by the contractor in contracts or purchase orders;

-- responsibility of the contractor for delivery of goods in accordance with established delivery schedules;

-- responsibilities of the contractor for inspection of goods before shipment;

-- compensation to be paid by the B/G to the contractor for undertaking procurement and conditions of payment of such compensation;

-- any special instructions to the contractor with respect to commercial conditions (e.g., warranties or packing instructions) to be included in contracts or purchase orders to be issued by the contractor to suppliers;

-- the limits, if any, of discretion which the contractor may exercise in accepting offers from suppliers based on specifications which differ from those given the contractor by the B/G or in establishing specifications for a procurement which differ from such specifications;

-- the procedure to be used by the contractor in purchasing from suppliers;

-- approvals, if any, to be obtained by the contractor from the B/G or AID before finalizing procurement.

In connection with the foregoing, see also Sections 1.1c and 3.2, Chapter 3, Handbook 11.

(3) The points mentioned above should be discussed with the B/G as part of procurement planning so that the choice of a procurement method is based on a full understanding of responsibilities accepted and actions to be taken by the B/G. (See also subparagraph c(1)(d), below.)

(3) Procurement by AID

(a) If the Mission Director reaches a conclusion that the B/G is unable to assume responsibility for procurement after full consideration of the options and risks involved, AID may accept that responsibility and meet it in one of the following ways:

(i) AID may itself undertake the procurement of project services and/or commodities. In most such cases, Missions rather than AID/W will act as procurement office; the availability of qualified staff in the Mission must, therefore, be considered. The procurement procedures to be used are those outlined in Handbooks 14 and 15.

(ii) AID may include responsibility for procurement in a contract with a contractor supplying professional services. This method of obtaining procurement services is applicable only if AID has assumed responsibility not only for the procurement of commodities but also for contracting for professional services needed for the same project.

(iii) AID may request another USG agency to undertake procurement. For standard items, AID may obtain the commodities through the General Services Administration (GSA); specialized equipment may be purchased by other USG agencies having the particular expertise, such as NASA, the FAA, the USGS, etc. In the latter case, the procurement responsibility may be included in a PASA or RSSA under which the agency provides technical services required for the project. The procurement services may be provided separately, in which case a PIO/C is used; a PIO/C is also used to authorize specific purchases if the PASA or RSSA includes general purchasing authority but no details of the commodities to be purchased;

(iv) AID, on the request of the B/G makes arrangements for procurement with a commercial purchasing agent.

(b) The procedures applicable to the foregoing arrangements are the following:

- Procurement by AID: AIDPR;

- Procurement by a contractor:
  --for contracting by AID with the contractor: PIO/T, contracting under AIDPR rules and, for purchasing instructions to the contractor, a PIO/C in which the contractor is designated;

  --for procurement by the contractor: as specified in the contract, usually Chapter 3, Handbook 11;

- Procurement by another USG agency: see Chapter 4, Handbook 15;

- Procurement by a commercial purchasing agent: PIO/C, procedures as specified therein, usually Handbook 11.

For guidance on actions covered under a PIO/C, see paragraph 1e, Appendix D7, Handbook 15, and other provisions in that Appendix. When issued to the Purchasing Agent, the PIO/C should specify the terms and conditions under which the Purchasing Agent will undertake the procurement or include them by reference to a separate agreement. Unless waived pursuant to paragraph 1.1c(3) of Chapter 3, Handbook 11, the purchasing agent is required to apply the rules set forth in Chapter 3, Section 2 of that Handbook.

b. List of Required Commodities

(1) For projects which require only few and easily defined commodities, it is often possible to prepare a list of all commodities needed during project development. When that is the case, the list should be included in the PP, together with estimated costs for each item or group of items shown.

(2) When larger and diverse commodity inputs are required, the development of detailed lists of commodities may be left to consultants to be retained early during the implementation phase of the project. In such cases, the estimate of the cost of commodities which must be included in the PP must have been based on feasibility studies or special studies carried out during project development.

c. Preparation of Technical Specifications

(1) Responsibility for preparing technical specifications necessary for the procurement of commodities can be assumed by the B/G's Implementing Agency with AID assistance if, between them, they have staff with enough technical expertise and experience. If that is not the case, the responsibility is usually assigned to an appropriate consultant, often one engaged to provide other services for the project. Procurement services agents may be able to provide surveys and prepare detailed technical specifications. The preparation of construction and materials specifications is a function normally assigned to a consulting or A/E firm if such a firm provides engineering services for a project.

(2) Technical specifications normally include units of measurement (dimensions, weight, pressure, etc.). Agreement must, therefore, be reached on the use of metric or American units of measurement. Similarly, agreement must be reached on the national standards to which specifications may refer. (See paragraph 2.9.2, Chapter 3, Handbook 11.)

d. Delivery Schedule

(1) When few commodities are to be purchased, the time when they must be available at the project site can be derived from the pre-project implementation plan. In that case, the schedule should be prepared early in the development stage so that the possibility of initiating some procurement steps as "pre-implementation" actions can be considered. (See Chapter 10, "Pre-Implementation.") In other cases, the delivery schedule may be established by consultants during project implementation, together with the list of commodities to be procured and the specifications. In that event, the delivery schedule becomes part of the operational planning which beings at the time the Project Agreement is signed.

(2) No matter when and by whom the procurement delivery schedule is prepared, it is usually of crucial importance to the implementation of the project and should, therefore, be prepared as early as possible, and in sufficient detail to permit control over procurement actions. Such control is possible only if the contracting and/or purchasing process is broken down into its component parts, beginning with the solicitation of bids, or if bidders first are to be prequalified, with the invitation to suppliers to submit prequalification information, and ending with the transportation of commodities and/or their arrival and inspection and acceptance of the project site. (See Section 3, Handbook 11 for details on steps in the procurement process.) To determine dates by which the procurement has to be initiated, it is necessary to work backwards from the desired availability date at the site and allow sufficient time for all the steps required in a given transaction. (See the "Project Officer's Guidebooks" in Supplement A to this Handbook for further information on estimating procurement "lead" times.)

(3) Delivery schedules should take into account the desirability of consolidating purchases for shipment and minimizing the need for storing commodities at the site or warehousing them elsewhere before they can be used for their intended purposes. It cannote be expected, however, that all deliveries will be made precisely on schedule; moreover,the schedules should include a "slack," i.e., a period of time by which delivery can be delayed without causing delays in the project. Provision may, therefore, have to be made for marshalling and/or storage facilities which can be used to protect commodities against pilferage and deterioration through effects of the weather. Marshalling services and storage facilities must be planned well in advance. For projects involving a large volume of commodities or commodities particularly sensitive to weather, storage facilities may have to be built at the site; in other cases, suitable warehousing facilities must be located and arrangements made for their use. Storage of commodities is thus a matter to be considered as part of both pre-project and opterational planning.

e. Source of Procurement

(1) The source and origin of commodities eligible for the AID financing and the nationality of contractors eligible to supply services and (separately) goods, as these terms are defined in Sections 2.6, Chapters 1 and 3 of Handbook 11, are those included in the "authorized geographic code" specified in each Project Agreement. (See Articles 7 and 6, respectively of the Standard Loan and Grant Agreements.) Section 2.6, ibid., also contains the rules for waiving the authorized source and nationality requirements. (See Attachment 3A, Handbook 11, for list of codes.)

(2) During pre-project planning, the categories of commodities or services expected to be required for implementation of the project should be reviewed to determine whether all of them can be purchased in countries included in the geographic code proposed for authorization. If it is found that this is not true for some commodities or services, the source/origin or nationality waivers should be included in the Project Authorization.

(3) If it becomes evident only uring operation planning, or from the results of soliciting bids or quotations, that a waiver for a category of services or commodities or a specific service or commodity is needed to procure them, a waiver must be obtained before purchases are effected.

(4) Procurement from "local" sources, i.e, from sources within the recipient country, is one aspect of "local cost financing." Such actions are usually important to project success and therefore included as part of the procurement plan. The extent to which local costs are to be financed is normally decided during pre-project planning; the proposed aggregate limits, or limits related to specific items or categories of commodities, should be stated and explained in the PP and included in the Project Authorization and Project Agreement. The rules relating to local cost financing, including local procurement of commodities, are set forth in Chapter 18, Handbook 1B. Changes in the limits of local procurement contained in a Project Authorization and Project Agreement must be authorized pursuant to the provisions of Authorization and/or Agreement and Chapter 13, "Project Modifications," and finalized in Amendments to those documents to the extent needed. An amendment to the Project Agreement is not necessary if the agreement clause relating to local cost financing permits a change "by agreement otherwise"; in that case, the change is documented in a PIL.

f. Transportation and Storage

(1) The responsibility for transporting commodities to the port of export is usually assigned to the supplier by specifying "FOB Port Export" or "FAS" terms in he contract or purchase order. Ocean transportation can be handled by the supplier, in which case "CIF" (cost-insurance-freight), "C and F" (cost and freight) or "freight prepaid and invoiced at cost" terms are specified; the responsibility for arranging ocean transportation can, alternatively, be assigned to a B/G agency, to a procurement agent, or to a freight forwarder. The B/G's Implementing Agency is usually responsible for clearing commodities through customs and arranging for transportation from the port of ;entry to the project site; these functions are, however, often assigned to a construction contractor under a contract for construction services, if such contract is used to implement all or part of a project.

(2) It is imperative that the arrangements to be made for these three phases of transportation (transportation to the port of export, ocean transportation and transportation from the port of entry to the site) are considered with the B/G as early as possible because such arrangements will affect the scope of work for service contracts and the drafting of IFB's for commodity purchases.

CHAPTER 10
PRE-IMPLEMENTATION

CHAPTER 10

PRE-IMPLEMENTATION

10A. Background

Project success is heavily influenced by the accuracy and completeness of design, the level of understanding and commitment reached between donors and participants during negotiations and the effectiveness of project management during implementation. Monitoring and evaluation activities and the making of timely modifications to adjust a project to changing conditions are also important determinants of project success. However, given often present price inflation of project inputs and the fact that delaying outputs and the generation and delivery of project benefits invariably means a reduction in the socio-economic contributions of a project, another management tool needs to be considered and, where appropriate, used to help maximize overall project results. This management tool is pre-implementation. Although presented herein within the sequence of chapters dealing with implementation functions and responsibilities, pre-implementation should be very much on the minds of project designers as early as the Project Implementation Document (PID) stage and increasingly reviewed for appropriateness and possible application during the project development and negotiating phases.

10B. Definition and Scope of Pre-implementation

1. Pre-implementation is the initiation of certain project implementation actions prior to execution of the Project Agreement (PROAG). While some of these actions may be taken by AID personnel, in general pre-implementation actions, especially those that involve procurement and contracting and the commitment of funds, such as the financing of initial project consultant services, are taken by the Borrower/Grantee (B/G). Notwithstanding benefits which can accrue to the B/G and the project, it must be understood that AID is prohibited by the Anti-Deficiency Act from making commitments regarding AID funds before such are properly authorized and obligated. This means that some of the pre-implementation actions would be undertaken by the B/G at its own risk and without any obligation on the part of AID to help finance such actions if an agreement were not signed.

2. Pre-implementation actions are desirable for the following reasons:

   -- Pre-implementation actions can preserve and take advantage of the organizational focus and momentum created during the design stage and carry them forward through project

negotiations. This produces two main benefits: Conditions Precedent can be reduced or satisfied as "closing requirements" (see Chapter 6) and the project can begin with a "running" start within the B/G Implementing Agency. Both factors can result in overall implementation schedule savings.

-- Pre-implementation actions get B/G and AID implementation and support personnel actively involved at earlier stages in the overall project schedule. This helps to improve project coordination and minimizes an undesirable situation, i.e., in which project development, negotiations and implementation functions are performed as isolated tasks and/or by completely separate staff groups.

-- Since most projects begin with limited financial resources and are subject to inflationary forces, the earlier procurement transactions are effected and contract prices fixed, the more inputs and probably outputs and benefits the B/G is going to get for its money.

-- If overall project timing is important for cost or benefit incidence reasons, the least expensive time to accelerate a project is during the pre-project and earliest implementation stages.

-- Projects which start off properly have a much better chance of achieving their objectives. Projects which hesitate or have difficulties during the early stages usually suffer proportionately more significant implementation problems and often permanent dysfunction.

-- To the extent personnel investments in pre-implementation actions reduce overall B/G and AID staff investments in that project (i.e., through the acceleration of activities and a reduction of staff intensive problem situations), the B/G and/or AID would have available staff resources which could be devoted to the undertaking of other priority development programs.

-- The sooner a project can advance to the benefit generation and delivery phase, in general, the greater the socio-economic returns.

3. Given the lead time between PID approval and the availability of project funding following signature of the Agreement (6-18 months), there is a clear need -- and usually opportunities -- for taking a number of pre-implementation actions. The scope and timing of such actions will be project specific, but they are also influenced by common factors, e.g.:

-- legal environment for AID and the B/G; i.e., whether there is a history of satisfactory project negotiations and agreements;

-- willingness to risk investments of time, personnel and monies to do something early (spending money to save money and/or maximize future gains);

-- availability of data for decision making;

-- the degree of confidence shared among the participants that the activity will go forward as generally planned;

-- existence of procurement actions which can and should receive pre-implementation attention;

-- need to maintain credibility and avoid legal liabilities vis-a-vis consultants or contractors who might be involved during the pre-implementation stages; and

-- B/G and AID management priorities or constraints relating to the commitment of personnel and resources before formal approval of a project and the signing of a negotiated Agreement.

Notwithstanding inherent uncertainties, pre-implementation actions are necessary tools for good management and should be employed wherever feasible and as early in the project development and approval process as is practicable.

10C. Range of Acceptable Actions

Pre-implementation actions have been defined as the taking of certain project implementation actions prior to signature of the PROAG. AID policy endorses use of this approach to accelerate overall project implementation. However, while it may greatly benefit the project to take such actions, there are two areas of caution regarding B/G and AID involvement therein: (i) that actions being taken are in accordance with AID conditions and requirements so that they will be eligible for subsequent AID financing, and (ii) that care must be exercised not to take any action that may constitute a commitment of AID project funds prior to signature of the PROAG. The following guidance acknowledges these restrictions:

-- Any project action which the B/G is willing to initiate and finance with its own funds without the expectation of AID reimbursement, if not otherwise in conflict with the project conditions and methods, is considered within the scope of possible pre-implementation actions.

10C

-- If the B/G desires to undertake an otherwise eligible project action and finances it with its own funds, with the expectation that AID may reimburse it after signature of the Project Agreement, then the B/G must have prior written AID approval[1] thereof and follow or apply such AID procedures as would be required had the Agreement already been signed. Notwithstanding AID concurrence, the B/G still must assume all risks related to the transaction because there can be no guarantee that AID will make such a reimbursement. (The Agreement can designate transactions entered into after a certain date as eligible even though they were undertaken prior to the signature date of the Agreement. (See Chapter 6, Project Loan Standard Provisions Annex, Section C.2, Eligibility Date.) However, a waiver of AID procedures and requirements after the fact in order to make an undesignated transaction eligible is, in some instances, not possible or, at the least, is only considered and approved under the most exceptional of circumstances. The need for waivers should therefore be addressed and their approval received as early in the project development process as possible.

-- In some cases, AID may find it appropriate to finance certain project actions before the Agreement is executed. However, funds other than project funds would have to be available for the transaction, e.g., Project Development and Support (PD&S) funds. These actions are usually very limited in scope and cost. Missions and/or Regional Bureaus should consult with PPC and GC if the use of such other funding is contemplated.

NOTE: When a substantial number of implementation actions, particularly in the case of B/G procurement and contracting actions, are to be taken before signature of the Agreement and issuance of the first Implementation Letter, it is essential that the procedures and rules which will govern AID-financed transactions be carefully reviewed with the B/G beforehand and then applied by the B/G Agency as the actions are taken. If this is not done, the B/G may make mistakes and, at the least, increase its risk that AID may be unable to subsequently assume financial responsibility for the transactions.

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[1] Note: All pre-implementation actions should be cleared by GC/RLA and the appropriate technical and support offices, e.g., Contract Management. Also, pre-implementation actions must be approved by an officer having the authority to authorize the project.

10D. Types of Pre-Implementation Actions

1. Pre-implementation actions that could be taken might be selected from any of the functional areas described in Chapter 3. For example --

Functional Area	Possible Pre-implementation Actions
Project Management	- delineate lines of responsibility and issue delegations of authority;
	- hold discussions with B/G on nature of CPs expected in Project Agreement and methods of meeting them;
	- complete staffing patterns for both local and foreign staff and begin administrative support preparations (e.g., housing, customs and transport arrangements, etc.);
	- locate and hire suitable B/G staff and conduct project orientation sessions;
Planning	- preparation of the detailed implementation plan, including management, implementation, procurement, logistics, * shipping and/or other subsidiary work plans, as well as scheduling of the participant and in-country training components; *
	- setting up of appropriate measurement, communications and reporting systems;
	- design of specific data gathering systems and completion of the evaluation plan and arrangements;
Contracting	- familiarization of B/G staff with AID procurement and contracting rules and guidelines and reaching an agreement on the detailed procedures to be applied;
	- preparation of draft notices for advertising procurement requirements in the Commerce Business Daily;
	- preparation of detailed scope(s) of work and prequalification questionnaires.

* Revised

- unless an A/E or other consulting firm is to perform such tasks, preparation of IFBs, RFPs and detailed specifications for commodity procurement.

Financial Management

- development of detailed budgets and the project financial plan;
- design of the project accounting and materials control system;
- agreement between B/G and AID on detailed disbursement procedures for both local currency and foreign exchange by B/G and by AID;
- filing of B/G requests with AID for the opening of revolving funds and Letters of Commitment and preparing final drafts of the Letters of Credit thereunder.
- reviewing detailed procedures with the B/G's designated "Approved Applicant" (Bank) and its correspondent relationships with U.S. Banks which will open, advise or confirm Letters of Credit.

10E. Pre-Implementation: Procurement Plans and Actions

1. General

As noted earlier, when the B/G is willing to assume all risks of contracting, including using its own funds to finance transactions without reimbursement by AID, a number of procurement steps can be accomplished prior to signature of an Agreement. The same generally holds if AID is able to finance some pre-implementation actions with other than project funds, e.g., PD&S funds. However, if AID is to be responsible for direct contracting arrangements that will be project funded, the scope of pre-implementation procurement actions which AID may accomplish is somewhat limited. Curtailing of such pre-implementation possibilities under the latter case is primarily a function of the Anti-Deficiency Act and the restriction against making commitments relating to AID financial responsibilities before funds are authorized and an Agreement signed. (See Guidance Notes for Preparing Model PROAGs, Appendix 6C.)

2. Basic Steps in the Procurement Process

The following describes the principal steps of the normal AID-financed procurement process. Several of the steps also apply to the procurement of goods and services from other U.S. Government agencies, e.g., through issuance of a PIO/T for PASA or RSSA services. These steps are briefly outlined and discussed to help project designers and implementors understand the chain of procurement actions and recognize points in the normal sequence beyond which pre-implementation actions would not be allowable or advisable. Consultations with legal officers and relevant procurement specialists, i.e., contracts or commodity procurement officers, is recommended early in the process of reviewing pre-implementation options to ensure legal and procedural difficulties are minimized.

Whether contracting for technical services, construction or commodities, 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 scopes of work and/or specifications (which need not be -- and often is not -- accomplished until after, or in conjunction with, Step 6);

3. determination of when the requirements are needed and, where appropriate, duration of need;

4. identification of potential sources of supply;

5. selection of an authorized procurement agent;

6. identification of anticipated waivers, delegations of authority, approvals, and special provisions or clauses which will be required;

7. preparation of Requests for Proposals or Invitations for Bid;

8. solicitation of proposals for bids, including determination of pre-qualified firms, where appropriate, and insertion of notices in the Commerce Business Daily or other appropriate publications;

9. receipt and review of proposals or bids;

10. selection of contractor/supplier;

11. preparation/negotiation of contract or purchase order;

12. execution of contract or purchase order; and

13. issuance of notice to proceed.

3. Proposed Actions

a. All procurement transactions in which AID project funds will be involved use an authorized agent, i.e., a private or governmental organization responsible for effecting the transaction. In these transactions, the authorized agent is either the B/G, the field mission, AID/W, another USG agency (e.g., GSA), or a contractor acting for the B/G, mission, or AID/W. Regardless of who serves as the authorized agent, a number of procurement steps listed in the foregoing paragraph can be taken during the project development approval and negotiation process. Actions which usually can be taken by the time the PP is approved include Steps 1 through 7. Steps 2, 6 and 7 will, however, frequently occur later in the project development and approval process than the other four steps. (Use of the Fixed Amount Reimbursement Method of financing involves different procedures. See Appendix 3J for details.)

Between the time a PP is approved and the PROAG signed, a number of additional procurement steps might be possible, as discussed in paragraph 4 below. Such must, however, have been cleared by the legal officer and contract/commodity specialists and approved by the appropriate authorizing official. Normally, this concurrence would take place with the approval of the Project Paper.

b. Funds needed to finance costs incurred in executing the aforementioned procurement steps should be provided by the B/G. Some of these actions might, however, be financed with AID program development and support funds (PD&S), if available and determined appropriate by the USAID director and concurred in by the concerned Regional Bureau.

4. Procurement Plannning and Pre-Implementation Procedures

a. Where the B/G (or a Contractor on the B/G's Behalf) is the Authorized Agent

If the B/G is the authorized agent, the PP should include a procurement plan which, at the least, provides firm information on procurement steps 1-6 above, with the possible exception of Step 2. (It is recognized that, in some cases, detailed specifications might not be available until after the PP is approved.) Where the

technical or construction services and commodities to be procured are required shortly after signing of the PROAG, the plan should indicate which steps beyond No. 6 will be taken prior to project agreement execution. Planning for such actions will enable AID to consider and issue any waivers or approvals which might be needed, e.g., regarding source or shipping. Such pre-planning will enable AID to make decisions and, as appropriate, state in the project authorization or its action memorandum that AID will reimburse the B/G for specified project costs incurred prior to agreement signing. If sufficient information is available in the procurement plan and PP, it may also be feasible for AID/W to delegate to the field (where such delegation does not already exist) authority to approve all project contracts and contractors, and conditions precedent.

b. Where the Mission (or a Contractor on its Behalf) is to be the Authorized Agent

Essentially the same procedures as those for transactions where the B/G is the authorized agent should be used.

c. Where AID/W Will Initiate Procurement or Authorize It Through Another Agency (e.g., GSA)

In those cases where the project goods and/or services are required at project site within, say, one year after execution of the PROAG, the PP procurement plan should include a detailed description of the scope of services or commodities required (Step 2). In those cases where the mission, with B/G concurrence, has requested expedited AID/W procurement -- and where funding is assured -- the following measures should be initiated immediately after Project Authorization:

-- M/SER, upon receipt of a procurement request (e.g., a PIO or comparable document), would undertake preparation of RFP or IFB (Step 7).

-- Once Step 7 was completed (and assuming signature of the PROAG or comparable obligating document was not confirmed), M/SER would check with the cognizant Regional Bureau and, if appropriate, contact the mission (a) advising of its readiness to initiate action to issue the IFB or RFP; (b) seeking the status of the negotiation of the PROAG; and (c) requesting confirmation that funding is earmarked by the Controller's Office for the procurement transaction.

-- Immediately after signature of the PROAG, M/SER would undertake Steps 8 through 11.

-- After formal notification that contract execution is needed), M/SER would execute the contract (Step 12). A Notice to Proceed to the contractor (Step 13) would be issued upon instructions from the mission.

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appropriate statements in the IFB as to the availability of AID funds therefor and disclaimers as to liabilities for costs if the activity in question does not ultimately proceed to be obligated as planned.

-- If the PROAG was still not confirmed as being signed, M/SER would recheck with the Bureau and, if appropriate, the mission regarding the status of PROAG negotiations before deciding whether to proceed to Step 10 and then to Step 11.

-- After formal notification (e.g., by issued PIO or otherwise) that the PROAG had been signed obligating the necessary funds (and that contract execution is needed), M/SER would execute the contract (Step 12). A Notice to Proceed to the contractor (Step 13) would be issued upon instructions from the mission.

CHAPTER 11
PROJECT MONITORING

CHAPTER 11

PROJECT MONITORING

11A. Introduction

Monitoring is the term used by AID to cover AID's observations and tracking of the project environment and its activities. Monitoring enables AID to understand progress being made in implementing the project, and whether or not methods and procedures are in accordance with the terms and conditions of the project agreement and subsidiary documentation. Monitoring requires the timely gathering of information regarding inputs, outputs and actions that are critical to project success and the comparison of such information with plans and schedules for the purpose of alerting AID and Borrower/Grantee management about potential implementation problems. Monitoring is of great importance because AID must assure itself that U.S. funds are being disbursed in accordance with statutory requirements and that goods and services financed are utilized effectively to produce intended benefits. Monitoring is also concerned with the project as a whole and enables the responsible officer to make judgments as to the continuing appropriateness of project design and the need for in-depth evaluations thereof. In addition, personnel responsible for monitoring will also collect data and maintain records that will be used by others evaluating the impact of a project or more general development impact issues. Note: Monitoring is not the same as auditing nor is it like evaluation, which is a discontinuous analytical function (see Chapter 12).

Through good monitoring, AID personnel can keep abreast of project activities and help Borrower/Grantee officials anticipate physical and procedural bottlenecks. When monitoring of project implementation leads to the identification of problems which the Borrower/Grantee Agency is unable to quickly resolve by itself (e.g., technical difficulties, procurement delays, lack of local currency financing, personnel shortages, etc.), it is, of course, not enough to "observe and record" such problems. Rather, efforts must be made to assist in the resolution of such problems whenever possible, i.e., to accept an additional measure of support or implementation responsibility. Although conceptually clearly distinct, in practice monitoring and implementation functions tend to merge when significant problems are being addressed.

11A

Monitoring also helps AID personnel prepare themselves to respond to Borrower/Grantee requests for assistance and documentary approvals. Information and documentation gathered as part of monitoring provide AID with an historical record of project implementation which becomes part of the official project files. Note: The duties and functions described in this Chapter are oriented primarily towards the monitoring of Borrower/Grantee projects. Many of the same steps apply, however, to keeping direct AID undertakings under management control.

11B. Responsibilities

The primary responsibility for monitoring a project lies with the Project Officer to whom that project has been assigned. However, some monitoring tasks may be assigned to one or more other members of the Project Committee (see Chapter 8B5 and Appendix 11E). In some instances, monitoring tasks may be assigned to an AID/W project backstop office, in which case the Project Backstop Officer in AID/W is responsible for ensuring that these specific monitoring tasks are carried out and for keeping the Mission Project Officer advised thereabouts. In particularly complex projects where different kinds of expertise are required for doing a thorough monitoring job, the Project Officer should establish and maintain a record of monitoring assignments. (See Appendix 11A, "Implementation Progress and Monitoring Checklist", which is a suggested format for recording such assignments.)

Monitoring is concerned with critical steps in project implementation and influencing their successful accomplishment on a day-to-day basis. In this sense, the Project Officer generally follows all aspects of the project implementation and keeps current information on progress of the project. Knowing what a project's plan is, when activities are departing from the intended course(s) and having the information at hand which can be used to make corrective decisions are all part of the Project Officer's monitoring responsibilities. He/she is thus responsible for establishing a suitable project monitoring system, operating it effectively and seeing that Project Implementation Status Reports are prepared in a timely manner. (See Appendices 11D and 11E and Supplement A to this Handbook for a more complete discussion of monitoring and reporting methods.)

11C. Sources of Monitoring Information

The following is an illustrative list of documentation and planning elements to be used for references and information sources during monitoring assignments. The specific items needed will depend on the nature of the project and Mission monitoring requirements:

-- Project Agreement and PILs

-- Borrower/Grantee Implementation Plans

-- Project Work Plans

-- Project Management Information/Scheduling System

-- Consultation, with Borrower/Grantee and Participants

-- Financial Reports

-- Contractors' Periodic Reports

-- Audits

-- Site Visits

-- Periodic Borrower/Grantee - AID Project Review Meetings

-- AID and/or Implementing Agency Assessments/Evaluations/Appraisals

11D. Monitoring Tasks

1. A number of events occur during the implementation of a project which can be classified as subjects of routine or standard monitoring tasks because the events occur in virtually all bilateral projects. Among these events are:

-- meeting conditions precedent to disbursement (see Appendix 11B);

-- the series of actions required in country contracting (see HB 11) or AID direct contracting (see HB 14);

-- the series of actions necessary in connection with AID payments or reimbursements (see Chapter 8, C.3.d).; and

-- the completion of a project and/or beginning of project operations (see Chapter 14).

The expected timing of these events can be scheduled at the start of implementation for follow-up as a given date approaches. (A sample checklist is attached as Appendix 11A.)

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2. Other tasks depend on the nature of the project and therefore cannot be "standardized" and time sequenced at the beginning. If construction is involved, key dates relating to the physical completion of activities or the occurrence of events could only be established after contracting has been completed, equipment installed, etc.). The events must be defined and tied to a target date, especially if related to financial performance (e.g., amount of monthly percentage of contract price, volume of material purchases, etc.). Other events might be the establishment of a new organization and appointment of its mangement and staff (if that is an element of the project), agreement reached on the list of equipment required for a research laboratory, etc. Such key implementation events, while not determinate in earlier phases of design, should be subsequently incorporated into a checklist such as suggested in paragraph 1, above.

3. Still other implementation actions to be monitored cannot be scheduled at the beginning of the project because their importance emerges only as implementation proceeds. For example, the appointment of a Project Manager, initially considered routine because a candidate had been chosen, might later demand close management attention e.g., the initial candidate withdraws; the selection of an alternative candidate requires a long lead time which had not been allowed for in the schedule.

11E. Monitoring Systems and Methods

1. Monitoring Systems: Because of the wide variety of Bureau programs and projects, an Agency-wide reporting and monitoring requirement, with the exception of the Project Implementation Status Report (see Section 11F), and USAID Controller financial reporting, has not been established. It is left up to individual Bureaus and Missions to establish project monitoring and portfolio oversight systems which will keep them informed as to the status of projects, especially those with significant implementation problems. At the least, Bureau and Mission systems must have monitoring procedures or methods which enable Project Officers and other Committee members to satisfy the following general needs:

-- oversee Borrower/Grantee compliance with AID policies, procedures and regulations;

-- ensure the timely and coordinated provision of AID (and other) financing and/or inputs;

-- support the Borrower/Grantee's efforts re: the effective utilization of resources and accurate forecasting of future problems;

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-- identify implementation issues and projects not performing satisfactorily;

-- collect data and information for subsequent A.I.D. project analyses and develop an historical record of implementation for the official A.I.D. project files;

-- prepare periodic reports for Mission and/or A.I.D./W review.

The establishment of monitoring and reporting systems to follow project implementation is a part of implementation planning. An important part of this is the selection of the data and information needed to support the monitoring system and judge progress against established schedules and criteria. For most projects, some type of accounting system needs to be installed and an understanding reached early in the negotiation and implementation phases on the reports to be submitted by the
* Borrower/Grantee, contractors, or other parties. Reports covering projects containing a participant training component should utilized the Training Cost Analysis system will serve as the required accounting system and provide the basis for all reports submitted by B/G, contractors and other parties. *

2. Monitoring Methods

a. Borrower/Grantee Project Reports

This includes reports required by the Project Agreement and Implementation Letters. These normally consist of Progress Reports, shipping reports, and, in the case of revenue-producing entities, public or private, Annual Financial Reports.[1] In determining the scope of these reports, a judgment should be made whether the provisions in the standard Attachments to the Implementation Letters meet A.I.D.'s needs for the activity in question. Modifications should be made as required. For example, when an activity is financed contingent upon an agreement with the firm to limit the export of its products, an appropriate requirement should be included in the Implementation Letter for the furnishing of data that will permit A.I.D. to verify compliance. However, A.I.D. reporting requirements should be kept to a minimum and maximum use made of internal management reports generated by the Borrower/Grantee or its agent. Changing Borrower/Grantee reporting formats to make them easier to read is insufficient justification for development of a separate A.I.D. report. A progress reporting system that meets the needs

1/See Appendix 8A, Guidance on the Preparation of Implementation Letters, Section E, Reports to be Submitted to A.I.D.

* Revised

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of Borrower/Grantee management for information and control should be satisfactory for most A.I.D. purposes, e.g., if a consultant's progress report is comprehensive, it may only need a Borrower/Grantee transmittal memo when submitted to A.I.D.

A good monitoring system requires the timely collection of management information.[2] (See the A.I.D./Office of Evaluation publication "Manager's Guide to Data Collection", November 1979.) In designing and implementing a data collection system, the following types of questions should be answered:

-- what data is required for A.I.D. monitoring, decision-making and downstream evaluation exercises?

-- what reports, survey methods and/or procedures should be used to collect the required data?

-- how frequently and by whom should the data be collected.

-- are the costs of the data collection system reasonable and justified?

-- will such data and reports be properly filed or recorded for later use?

b. Site Visits

Physical inspection of the activity by A.I.D. is an essential monitoring tool. The purpose and coverage of site inspection is best illustrated by the report which should be prepared and filed by A.I.D. staff conducting the site visit (see Appendix 11C for suggested procedures and format). The frequency and scope of site visits will vary according to the nature of the project and the rate of progress achieved. An appraisal of performance based on comparison of the written reports and site visit findings against implementation plans should provide a basis for isolating problem areas and identifying follow-up actions that need to be taken.

c. Consultation with Project Participants

Among the most productive and timely monitoring tools are conferences, meetings and personal consultations with Borrower/Grantee, officials, contractors, beneficiaries and other

2/For further guidance, see "Managers Guide to Data Collection", Office of Evaluation, PPC, November 1979.

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project participants. Such information exchanges can be highly informative and are often needed to put in perspective the findings from other monitorng methods. Depending upon the subject covered or decisions taken, an AID memorandum to the files is often prepared to record the substance of such exchanges. Discussions and consultations with Borrower/Grantee contractors can be very useful, but care should be exercised by AID personnel regarding infringement on the Borrower/Grantee's management/contract administration roles and the possibility of giving unauthorized guidance or instructions to a contractor when AID is not a party to the contract. (Such discussions are usually held in the presence of, with guidance and instructions given through, Borrower/Grantee representatives to avoid any contractual disputes.) Memorandums of discussion often should be prepared jointly to avoid subsequent misunderstandings.

d. Review of Project Documents

Another major function of monitoring is the review of project documentation, i.e., the Project Agreement, Implementation Letters, Borrower/Grantee implementation plans, project work plans, financing instructions, contracts, delivery of performance certificates, inspection reports and billing and/or payment documents. While there may be a time differential involved, the flow of such documents apprises the reviewer of project actions and often confirms information from other reporting sources. The review of contract scopes of work and progress reports thereunder allow a tracking of physical events that can, if necessary, be measured or confirmed through subsequent personal inspectons by Project Committee personnel. If plans and schedules and the flow of such documentation are properly established in the beginning, project monitoring can be more effective and much less of a physical burden.

11F. Project Status Reporting

The AID Project Officer assigned to the activity is responsible for the preparation and submission of periodic Project Implementation Status Reports. (See Appendix 11D for a suggested report format.) Such reports should briefly describe: progress achieved against plans and targets, problems impeding progress, and actions taken and to be taken concerning the activity. These reports should also indicate major AID monitoring or support actions remaining or to be taken during succeeding reporting periods and the entity and individual(s) responsible for follow-up. Reports should include information regarding the amounts and percentages of commitment and disbursements of AID funds, as compared with planned commitments

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and disbursements, and a realistic forecast of estimated cost-to-complete versus funds available for major project elements. The report may also include a summary rating section which can be used by the Bureaus for comparative assessments of implementation progress. If such information is adequately covered in Borrower/Grantee reports, summary references thereto will be satisfactory. If a financing shortfall is foreseen, an analysis of the problem and recommended solution(s) should be summarized in the report. Achievement of noteworthy milestones and successes should also be highlighted. Periodic management reviews, including the use of Project Implementation Status Reports, or their equivalents, shall be conducted at the Mission or AID/W office level in accordance with Bureau portfolio supervision systems. Regional and Central Bureaus shall undertake Bureau level portfolio supervision reviews at least once each year and prepare summary reports thereon in accordance with guidance furnished by PPC and the Bureau for Management (M).

11G. Enforcement and Remedies

When the Borrower/Grantee fails to comply with specific AID statutory and policy requirements or fulfill other responsibilities under the Agreement and Implementation Letters, AID's first step is normally to communicate with the Borrower/Grantee about the deficiency and to review options for resolving the problem. Where the Borrower/Grantee fails to satisfactorily rectify the situation, AID may invoke the terms of the Project Agreement, which will contain remedies or sanctions. In addition, AID's de facto control over disbursements of AID funds is sometimes a reinforcement to requests for correction. Available remedies or sanctions may include: (1) obtaining a refund (if appropriate) from the Borrower/Grantee; (2) informally holding up or formally suspending disbursements until the situation is corrected; (3) in extreme cases for loans, accelerating the maturity date of the loan; or (4) in the case of grants, further assistance for the activity may be cancelled. (See Appendix 11F for additional guidance regarding suspension and cancellation situations.)

All communications with the Borrower/Grantee regarding such problems should be sent from the Mission Director with appropriate clearances by the Mission Legal Advisor and Controller, to the Borrower/Grantee official representative. While individual cases of deficiencies or problems should initially be communicated to Borrower/Grantee personnel by means other than an Implementation Letter, the Implementation Letter format should be used if the Project Agreement so indicates or if the condition reflects a more significant deficiency, misunderstanding or problem.

APPENDIX 11A

IMPLEMENTATION AND PROGRESS MONITORING CHECKLIST

Country/Project Number_____ Date_____

Project Title_____ Project Officer_____

Borrower/Grantee_____

	EVENT	TARGET DATE		DATE	MONITORING OFFICER AND REMARKS
		ORIGINAL	REVISED	ACCOMPLISHED	
	A. MONITORING ASSIGNMENTS				
1	Assignment of AID Officer responsible for monitoring implementation of activity.				
2	Preparation of monitoring outline.				
3	Checklist prepared listing CPs and reviewing officer(s)				
4	CPs to initial disbursement satisfied, documented and recorded. A. Legal opinion of B/G re validity of agreement submitted. B. B/G's agents and representatives identified. C. Other.				
	B. COORDINATION WITH OTHER DONORS				
5	Inputs being financed.				
6	Conditions Precedent.				
7	Status of disbursements.				
8	Coordination/Review meetings				

(2)

IMPLEMENTATION AND PROGRESS
MONITORING CHECKLIST

Country/Project Number_____ Date_____

Project Title_____ Project Officer_____

Borrower/Grantee_____

	EVENT	TARGET DATE		DATE	MONITORING OFFICER
		ORIGINAL	REVISED	ACCOMPLISHED	AND REMARKS
	C. PROCUREMENT OF TECHNICAL AND PROFESSIONAL SERVICES RFP NOTICE PUBLISHED				
9	B/G submits publication notice and request for technical proposals for engineering and other professional services.				
5A	Alternatively B/G publishes (through AID) notice of and distributes pre-qualificatio questionnaire; performs pre-qualification.				
6	A. AID approves B/G's notice and request for technical proposals.				
	B. AID and B/G establish evaluation criteria				
7	Notice published in COMMERCE BUSINESS DAILY.				
	D. FIRM SELECTED AND APPROVE				
8	Offerors receive request for technical proposals and submits proposals to B/G.				
9	B/G evaluates proposals and selects firm for contract award using evaluation criteria				

(3)

IMPLEMENTATION AND PROGRESS
MONITORING CHECKLIST

Country/Project Number_____ Date_____

Project Title_____ Project Officer_____

Borrower/Grantee_____

	EVENT	TARGET DATE		DATE	MONITORING OFFICER
		ORIGINAL	REVISED	ACCOMPLISHED	AND REMARKS
10	Eligibility of firm verified				
11	AID approves proposed firm and notifies B/G.				
	E. CONTRACT NEGOTIATED AND APPROVED				
12	B/G and Approved Firm negotiate contract.				
13	AID approves contract with Firm.				
14	B/G and Firm execute contract as approved by AID (May occur after AID approves request for Financing-EVENT 17).				
	F. DISBURSEMENT ARRANGED				
15	B/G has satisfied all initial CPs and has been so notified by AID by a PIL.				
16	B/G requests financing by				
	a. Direct Reimbursement				
	b. Letter of Commitment (L/COM)				
	c. Other method				

IMPLEMENTATION AND PROGRESS MONITORING CHECKLIST (4)

Country/Project Number_____ Date_____

Project Title_____ Project Officer_____

Borrower/Grantee_____

	EVENT	TARGET DATE		DATE	MONITORING OFFICER AND REMARKS
		ORIGINAL	REVISED	ACCOMPLISHED	
17	AID approves Financing request. If B/G requests Bank L/COM method, L/COM issued to U.S. Bank by AID and B/G notified. (Date of Disbursing authorization recorded.)				
18	B/G or its approved applicant opens or requests U.S. Bank to confirm or open a letter of credit for the contractor under the L/COM held by U.S. Bank.				
19	B/G sends notice to its contracted Firm to proceed.				

IMPLEMENTATION AND PROGRESS
MONITORING CHECKLIST (5)

Country/Project Number_____ Date_____

Project Title_____ Project Officer_____

Borrower/Grantee_____

	EVENT	TARGET DATE		DATE	MONITORING OFFICER
		ORIGINAL	REVISED	ACCOMPLISHED	AND REMARKS
	G. CONTRACT PERFORMANCE BEGINS				
20	Approval of vouchers for payment and first disbursement made (Date recorded by both AID/W and Field Mission)				
21	Detailed Plans (or other consultant services) completed				
	H. PROCUREMENT OF CONSTRUCTION SERVICES OR CUSTOM-MADE EQUIPMENT				
	SYNOPSIS PUBLISHED				
	PRE-QUALIFICATION QUESTIONNAIRE APPROVED BY AID				
22	B/G submits synopsis for construction bidding together with the proposed Prequalification Questionnaire - (This and following steps appropriate to all construction and major equipment procurement, except as otherwise specified to B/G.)				
23	AID approves synopsis and proposed changes in questionnaire and publishes synopsis in COMMERCE BUSINESS DAILY				

IMPLEMENTATION AND PROGRESS
MONITORING CHECKLIST (6)

Country/Project Number_____ Date_____

Project Title_____ Project Officer_____

Borrower/Grantee_____

	EVENT	TARGET DATE		DATE	MONITORING OFFICER
		ORIGINAL	REVISED	ACCOMPLISHED	AND REMARKS
	I. PROPOSED BIDDERS' LIST APPROVED				
24	B/G furnishes pre-qualification questionnaire to interested firms.				
25	Bidders complete and return questionnaire to B/G.				
26	B/G evaluates questionnaires and submits to AID a recommended list of pre-qualified firms.				
27	AID approves list and notifies B/G.				
	J. IFB APPROVED & ISSUED				
28	B/G submits for AID approval the Invitation for BID (IFB) package.				
29	AID approves IFB.				

IMPLEMENTATION AND PROGRESS
MONITORING CHECKLIST (7)

Country/Project Number_____ Date_____

Project Title_____ Project Officer_____

Borrower/Grantee_____

	EVENT	TARGET DATE		DATE	MONITORING OFFICER AND REMARKS
		ORIGINAL	REVISED	ACCOMPLISHED	
30	B/G distributes IFB to qualified firms.				
30a	(Pre-bid conferences, held in certain cases should be recorded.)				
	K. CONTRACTOR SELECTED AND APPROVED: CONTRACT EXECUTED				
31	Bids submitted to B/G.				
32	B/G analyzes bids, proposes award.				
33	Eligibility of contractor and/or equipment supplier confirmed.				
34	Any proposed changes in terms and conditions of contract included in IFB are reviewed for acceptability.				
35	AID approves award, if appropriate, or disapproves award, justifies disapproval to B/G and recommends alternative action.				

IMPLEMENTATION AND PROGRESS
MONITORING CHECKLIST (8)

Country/Project Number_____ Date_____

Project Title_____ Project Officer_____

Borrower/Grantee_____

	EVENT	TARGET DATE		DATE	MONITORING OFFICER
		ORIGINAL	REVISED	ACCOMPLISHED	AND REMARKS
36	B/G sends written notice of award to contractor; copies of notice received by AID.				
37	B/G and contractor execute contract; conformed copies received by AID (May occur after AID approves request for Financing event 43).				
	L. SMALL VALUE PROCUREMENT OF EQUIPMENT & MATERIALS*				
38	B/G prepares advertisement and submits to AID Small Business Office for Publication of estimated procurement/cost if is $25,000 or more.				
39	B/G sends IFB copies to AID and to approved U.S. and other locations for distribution.				
40	Interested firms submit bids in response to IFB.				

* NOTE: The nature of events 38 thru 41 will vary with the system of competitive procurement which may not include formal invitations for bids. Adjustments appropriate to each project will have to be made.

IMPLEMENTATION AND PROGRESS
MONITORING CHECKLIST (9)

Country/Project Number_____ Date_____

Project Title_____ Project Officer_____

Borrower/Grantee_____

	EVENT	TARGET DATE		DATE	MONITORING OFFICER
		ORIGINAL	REVISED	ACCOMPLISHED	AND REMARKS
41	B/G evaluates bids and awards contract for equipment and materials.				
42	If required, B/G submits BID abstracts and award information to AID for approval.				
	M. DISBURSEMENT ARRANGED				
43	CP's to additional disbursement satisfied prior to their terminal date (TD for such CPs and date they are met are recorded).				
44	AID approves request for financing. If B/G chooses L/COM method of payment, L/COM issued to U.S. Bank by AID for construction and equipment procurement. (Date of disbursing authorization recorded.)				
45	B/G and its approved applicant requests U.S. Bank to open Letter of credit against L/COM & gives notice to contractors to proceed.				

IMPLEMENTATION AND PROGRESS
MONITORING CHECKLIST (10)

Country/Project Number_____ Date_____

Project Title_____ Project Officer_____

Borrower/Grantee_____

	EVENT	TARGET DATE		DATE	MONITORING OFFICER
		ORIGINAL	REVISED	ACCOMPLISHED	AND REMARKS
46	Disbursement for construction and equipment made when supported by required documentation from contractors, suppliers and B/G. (Date of disbursements recorded.)				
	N. CONTRACT(s) PERFORMED				
47	Construction and equipment procurement progress monitored according to established schedule. (These items will vary from project to project but monitoring schedule should note major steps of project, e.g. CONSTRUCTION - ground breaking; major structural units completed; major units outfitted. Equipment: completed; insured; shipped; delivered to port of entry; customs clearance; delivered to site(s); installed; and marked with the AID symbol.				

IMPLEMENTATION AND PROGRESS
MONITORING CHECKLIST (11)

Country/Project Number_____ Date_____

Project Title_____ Project Officer_____

Borrower/Grantee_____

	EVENT	TARGET DATE		DATE	MONITORING OFFICER
		ORIGINAL	REVISED	ACCOMPLISHED	AND REMARKS
48	Periodic B/G and contractor progress reports received and quarterly shipping reports received and forwarded to AID/W. (Monitoring officers should have a schedule and control record for all reports required under the Agreement as a part of the monitoring outline Event 1.)				
49	All letters of commitment issued before terminal date				
50	All funds disbursed before terminal date.				
51	As scheduled by outline of reporting and monitoring responsibilities or otherwise: A. Site inspections B. Internal Audits C. Outside Audits (if any) D. Quarterly Status Report				

IMPLEMENTATION AND PROGRESS
MONITORING CHECKLIST (12)

Country/Project Number_____ Date_____

Project Title_____ Project Officer_____

Borrower/Grantee_____

	EVENT	TARGET DATE		DATE	MONITORING OFFICER AND REMARKS
		ORIGINAL	REVISED	ACCOMPLISHED	
	E. Other checks such as Evaluations				
	(i) joint evaluations				
	(ii) other				
	(Brief report on results; actions recommended; action taken)				
52	Physical completion of Project.				
53	Facility tested and accepted by B/G.				
	O. PROJECT WIND-UP				
54	Production/operation of facility begins.				
55	Project completion report received from B/G.				
56	Continuing covenants of Project Agreement upheld by B/G.				
57	Repayment schedule revised and sent to Borrower.				

APPENDIX 11B

GUIDANCE FOR MONITORING THE MEETING OF CONDITIONS PRECEDENT

1. Procedure For Recording Actions in Meeting Conditions Precedent

The procedure outlined in this Appendix is suggested to assist missions in assuring that, before disbursements or issuance of commitment documents are authorized, all Conditions Precedent (CPs) to the action in question are met. The Project Officer, in consultation with other members of the Project Committee, is responsible for assembling documents and records concerning these conditions and for keeping appropriate officials advised of their status. The legal, technical and engineering members of the Project Committee are responsible for confirming to the Project Officer when conditions affecting their respective areas have been met; for other conditions the Project Officer is normally responsible. Such documents and records shall be kept in the official project files.

2. Conditions Precedent Memorandum

As soon as possible during the latter stages of the negotiations, or immediately after execution of the agreement, the Project Officer prepares a Conditions Precedent Memorandum (see Appendix 11B-1), or equivalent, listing all the conditions precedent that appear in the Agreement and indicating the action officers responsible for certifying as to their fulfillment. Following Borrower/Grantee fulfillment of the CPs, action officiers are to complete, initial, and return a copy of the memo to the Project Officer.

3. Notice to the Borrower/Grantee

The Project Officer records fulfillment of CPs on the original of the Conditions Precedent Memorandum. When all conditions precedent to the first disbursement are met, the Project Officer prepares an appropriate Notice to the Borrower/Grantee in the form of a Project Implementation Letter (PIL). This PIL will be cleared by the Legal Advisor and members of the Project Committee and signed by the appropriate AID official. (See Chapter 8C.3(b)(4) and Appendix 11E.) A copy of this PIL must be sent to the Office of Financial Management (M/FM) so that M/FM will be cleared to take action when

the first request for disbursement or opening commitments is received from the Borrower/Grantee. (It is a good practice to attach a copy of this PIL to the first request for issuance of an L/COM or Disbursing Authorization to confirm to M/FM that Conditions Precedent have been duly met.)

MEMORANDUM TO: (Appropriate Project Committee member)

FROM : (Project Officer)

SUBJECT : RECORD ACTIONS IN MEETING CONDITIONS PRECEDENT FOR AID LOAN/GRANT NO. _____
(PROJECT TITLE) _____

The conditions precedent to disbursement under this loan/grant are described below. Please complete, initial and return a copy of this memo as the condition(s) for which you are responsible has/have been fulfilled.

Requirements	Compliance		
	Actions Taken/ Identification of Document	Date Accepted	Clearing Officer

APPENDIX 11C

GUIDANCE FOR PREPARATION OF REPORT ON SITE INSPECTION

1. PURPOSE

The purpose of the field site visit is to check out progress of the project on a first hand basis and review, as appropriate, problem areas with operational personnel. Periodic field visits are essential for maintaining an independent check on the project and utility of the project implementation reporting system.

2. GUIDELINE FOR SITE INSPECTION REPORT

The attached format, Appendix 11C-1, has been developed for the use of the Project Officers, Engineers, Technical Committee members and other personnel as a general guideline in reporting on the results of site inspection visits. This guideline represents a suggested checklist of elements to be covered. This list of items will not be appropriate for every project and would not necessarily be covered in every inspection. If a particular activity or intended inspection dictates a more general or more limited focus, the format should be adjusted accordingly. Coverage during the inspection will vary depending on the:

- nature of the project;
- capability and effectiveness of B/G personnel, its consultants and other technical and supervisory personnel;
- stage reached in implementation of the project;
- accuracy of previous oral and and written reports;

— results observed on previous site visits and/or problems being encountered, and

— time available for conducting the field inspection.

3. PREPARATION FOR SITE VISIT

Due to manpower constraints, site inspections are seldom carried out by Committee members as frequently as dictated by project conditions. Therefore, adequate inspection team preparations must be made to:

— review progress or issues of concern to various Committee members who may not be in attendance;

— make efficient use of AID, B/G and contractor staff time and support during an inspection, and

— enable prompt distillation of information and distribution of the site inspection report so that timely and effective corrective actions are taken.

(Note: Site inspections take time and money and can divert scarce resources (e.g. B/G management time) away from other important tasks. Because of this, conscious efforts must be made by site inspection teams to focus their efforts and then support subsequent corrective actions, so that the net effect of the site visit becomes a positive contribution to implementation of the project.)

To promote prior planning and analysis, it is suggested that Section A, Background, in the attached reporting format be completed prior to departure of the individual or inspection team. This Section should reflect discussions among the members of the Project Committee, with the Borrower/Grantee or others concerned with the particular aspects of implementation being emphasized at that time. Borrower/Grantee collaboration and participation in site visits should be a prerequisite unless special circumstances, e.g., special audit regarding utilization of inputs, dictate otherwise.

4. REPORT PREPARATION AND DISTRIBUTION

The site inspection report is to be prepared and distributed as quickly as possible after the field trip, especially to personnel having action responsibilities thereunder. It is suggested that site inspection reports confine themselves to a factual presentation of the results and avoid generalizations and broad, sweeping statements of opinion.

The Project Officer (or other Committee member) conducting the site inspection is responsible for completing the inspection report, assuring that recommendations are made to the appropriate party and required follow-up actions effectively carried out.

If the site inspection is conducted by an AID/W team, significant findings of the team should be discussed with members of the Mission and, as appropriate, the U.S. Embassy. A draft report should be provided to the Mission Director for discussion and clearance and responsibility for follow-up actions by USAID and/or offices must be clearly specified prior to the team's departure from the Mission.

FORMAT FOR SITE INSPECTION REPORT

(Report Number)

(Date of Report)

Country

Reporting Officer(s)

Project Title/Number

Agreement Amount

Disbursements:

Planned _____

Period Covered_____ to _____

Actual _____

A. Background:

1. Officials Participating in Site Inspection

(Names, Titles, Organizations)

2. Purpose of Site Inspection

(Briefly describe the project and physical organizational progress reported to date. Major issues or problems which have been identified should be listed and description given of special implementation aspects that are to be examined by the inspection team.)

B. Summary Conclusions and Recommendations:

(This section should be a concise summary of inspection activities and conclusions made regarding aspects or problems investigated. Recommendations for specific remedial actions should be presented and responsibility therefor defined.)

C. Inspection/Reporting Details (included as appropriate)

1. Discuss any changes or adjustments needed in principal project documentations (Agreement, PILs, Letters of Commitment, contracts, etc.).

2. Organization and Management

a. Briefly describe progress with respect to the roles being played by key Borrower/Grantee or consultant management personnel responsible for carrying out the project. (If covered in a previous inspection report, so state and indicate whether any significant changes have occurred.)

b. Describe the effectiveness with which the project is being managed.

3. Status of Engineering, Technical and Planning Progress

Describe the nature and progress of engineering and technical work accomplished to date, and indicate whether this is proceeding on schedule. If delays have occurred or are anticipated, ascertain reasons and the steps, if any, proposed to offset the slippage or to re-schedule. Indicate work remaining in current phase, potential problems and steps taken or to be taken to resolve them. Note especially factors affecting the overall character and progress of the project.

4. Status of Procurement of Goods and Services

Indicate the progress made in the procurement program: the items (by general category) offered for tender, order placed, items delivered to the site. Indicate adherence to, or slippage from, the established schedule. Ascertain whether the current delivery schedule for the entire project is consistent with the construction and installation

schedules. Note any current or potential problems and steps taken or which are to be taken, and by whom, to resolve them. Note especially factors affecting the character and progress of the project. Where appropriate, indicate whether requirements for "marking" materials and equipment and shipping are being adhered to.

5. Status of Construction and Installation

Describe briefly the progress of construction and installation to date. If practical , include photographs in the report. Indicate adherence to schedules and note any current or potential problems. Indicate whether materials and labor resources appear adequate and the extent of quality control measures. If applicable, note existence of signs on or near the construction/installation which identify AID participation.

6. Utilization

Briefly confirm installation and the effectiveness of utilization of major pieces of equipment on the project.

7. Training

If training is involved, briefly describe the progress being achieved in this phase and determine whether personnel and organizational development are keeping pace with other activities.

8. Disbursements of AID Funds

Review financing methods and note relationships between the disbursement of AID funds and physical accomplishments under technical assistance, engineering, procurement, construction and installation and training activities. Describe procedural difficulties or problems, if any, in obtaining financing instruments or disbursement of AID funds for the project. Discrepancies between planned and actual disbursement conditions should be noted.

9. Review the status in carrying out the Financial Plan and, if applicable, summarize the financial situation of the B/G implementing agency. Ascertain the availability of funds required (from all sources) to complete the project. Note particularly any changes forecast for cost of the project, especially elements financed by AID, and the timing of any projected shortfalls.

10. Note the reliability and utility of the project's management information system and B/G reporting to AID.

11. Mission Coordination (if site visit conducted by AID/W Team)

Report briefly on:

a. Mission problems, if any, in the areas of project support and monitoring.

b. Mission views and recommendations on the Team's findings; if appropriate, attach materials provided by the Mission.

c. Follow-up actions to be taken by the Mission and/or AID/W, specifying, where appropriate, the offices to which action responsibility was assigned.

APPENDIX 11D

SUGGESTED FORMAT
PROJECT IMPLEMENTATION STATUS REPORT*

TO: Date_____

FROM: (Project Officer)

SUBJECT: Project Status Report -

(Name/Number of Project)

(Period Ending_____)

A. Historical Data

1. Authorization Date (and amendments, if any)
2. Agreement Date (and amendments, if any)
3. Amount authorized/obligated (Original/Revised)
4. Date CPs met
5. PACD (Original/Revised)

B. Financial Status

Show Total Project cost, AID Funding FX and LC); Host Government; and other Donor funding for both original and, if applicable, the revised cost.

Compare accrued expenditures with expenditure targets as of the current F/Y.

Give schedule of subsequent AID Obligations (if not yet fully funded or if additional funding foreseen.)

C. Accomplishments

(Comment on progress made on key components of project, e.g., construction, procurement, training, consulting services, etc., with emphasis on actual versus planned progress and actions accomplished since the previous status report.)

*This report is normally prepared within 30 days following close of a reporting period or as determined by Bureau or Mission.

D. Problem

(Comment on problems, present and foreseen, which are or will become significant barriers to the achievement of output targets or project objectives.)

E. Recommended Actions

(Describe recommended actions to solve the above problems, identifying the responsible party, e.g., Borrower/Grantee, USAID office, AID/W office. Emphasizing those specific actions to be taken during the subsequent two reporting quarters.)

F. Rating of Project as to condition and progress

(This section is to be completed, to the extent required by the Mission or Bureau, using, as appropriate, the elements suggested below.)

If used by Missions or Bureaus, ratings on individual loan and grant project elements should conform to the following scale: (1 - 3) - minor or no problem; (4 - 7) - moderate problems; and (8 - 10) - significant problems. The assignment of numbers should reflect differences between (i) original or revised requirements and schedules and (ii) project conditions at the time of reporting.

1. compliance with conditions/covenants
2. project costs versus confirmed financing
3. disbursement progress (AID and Host Country)
4. donor/assistance coordination
5. completion of AID inputs within the current PACD
6. procurement/contracting/delivery/utilization of commodities
7. construction and utilization of facilities
8. B/G performance in management, provision of its contribution, etc.

9. project management/control
10. institutional development
11. performance of consultants/service units
12. personnel recruiting and training activities
13. maintenance of project accounting, data collection and reporting systems
14. generation of outputs and benefits
15. beneficiary acceptance/participation
16. continuing validity of project objectives and design
17. other (describe)

Suggested performance ranges: for projects failing to meet conditions precedent within 6 months or not adhering to covenants (item 1); cost overruns for the project or AID portion exceeding original planned costs by 30% or more (item 2); disbursements of AID or Borrower/Grantee funds more than 30% below current schedules (item 3); expected extensions of PACD beyond one year (item 5); physical or procurement progress more than one year behind schedule (item 6 and 7); Borrower/Grantee is not submitting required reports (item 12); a

minimum rating of 6 (moderate problem) should be given for those factors. Depending on the significance of the factor to the overall success of the project, an otherwise moderate rating (6) would be revised upwards (7-10), e.g., revised total project costs exceed planned costs by only 25% but since financing is unavailable, will prevent achievement of project objectives.)

Frequency of Reporting:

(As noted previously, the format, content and frequency of the Project Implementation Status Report are to be defined by the respective Bureau. The foregoing is only suggested since it cannot fit all types of projects or situations. It is, nonetheless, recommended for Bureau and Mission use since it can help improve project implementation, monitoring and portfolio supervision. The Project Implementation Status Report, or its equivalent, should be prepared at least semi-annually and reviewed by Mission and/or Bureau management.)

APPENDIX 11E

SPECIFIC MONITORING RESPONSIBILITIES

This Appendix contains a more detailed presentation of typical monitoring responsibilities applicable to most AID-financed activities. Direct responsibility for performing or seeing that others perform such functions will depend upon the specific project and AID's role with respect thereto. (See discussion of AID roles in Chapter 8, Sections 8B and 8C.)

1. Verifies Compliance with Conditions Precedent and Covenants

The Project Officer is responsible for the verification of Borrower/Grantee compliance with conditions precedent and covenants of the project agreement. More specifically, he/she:

- -- obtains legal opinions or documentation where necessary;
- -- processes, or sees that others process, extensions, modification to conditions and covenants as appropriate;
- -- advises Director when CPs are not met and recommends appropriate action;
- -- confirms that CPs are met by issuance of PIL;
- -- oversees compliance with covenants.

The type of project and nature of covenants being monitored should dictate the system of monitoring needed. A suggested procedure for recording actions in meeting conditions precedent is found in Appendix 11B.

2. Assures that Procurement Contracts are Solicited and Negotiated on Schedule and In Accordance with AID Requirements:

- -- elicits assistance and coordinates efforts of AID specialists (e.g., legal, technical, contracting, administrative) to oversee and expedite the procurement and contracting system;

-- obtains assistance, as needed, from AID contracting officer and/or legal advisor, advises Borrower/Grantee officials, implementation agents, bidders and contractors on AID requirements;

-- ensures prompt AID review and approval of bid analyses, awardee selections and drafts negotiated and/or final contract documents;

-- as required, sets up appropriate AID instruments to finance approved contacts or arranges reimbursement mechanisms if the Borrower/Grantee is making initial payments to contractors.

3. Assures that Procurement Contracts are Completed Expeditiously and in Conformance with AID Regulations:

-- monitors progress against contracting plans and delivery schedules to ensure timely and cost effective delivery of all required goods and services.

-- assists Borrower/Grantee and suppliers in resolving disputes and unforeseen difficulties;

-- as appropriate, makes independent, or joint contacts or inspections to confirm progress and avoid problems regarding manufacturing, testing, packing, inland delivery, marshalling and ocean transportation of goods;

-- ensures Borrower/Grantee arrangements for shipping control, customs clearance, receipt and inland transportation are proceeding in accordance with plans;

-- assists B/G and/or contractor personnel with the preparation of invoicing and payment documentation;

-- reviews Borrower/Grantee commodity storage and warehousing methods to ensure safekeeping of goods and satisfaction of warranty provisions or operational needs until installation and start up are effected.

4. Verifies Compliance with Specific Requirements on AID-financed Items

Verification of compliance with the various specifically enumerated requirements of AID is accomplished either by (1) review and approval prior to contract award or direct disbursement; (2) a post-audit of documentation presented to obtain reimbursement; or (3) audit and inspection of the specific activities by Controller, Audit and operating personnel responsible for monitoring. To ensure that their responsibilities are effectively carried out, the Office of Financial Management (FM) must be furnished with signed or conformed copies of all Project Agreements, Amendments and Implementation Letters and correspondence pertaining to interpretation of AID requirements and eligibility of costs to be financed thereunder.

a. Eligibility of Items for AID Financing. AID approvals of invitations for bid, contracts and requests for disbursement are designed to provide AID with a check as to the eligibility of items to be financed. A review of the terms of an IFB or RFP will establish whether the documents contain specification and quantity as well as source/origin specifics which match the Project Agreement or other documentation. Such requirements, and invoicing and reporting which will allow review of compliance, shall be specified in contracts and purchase order.

1) Imported Goods

The Project Officer or other appropriate Committee member examines each request by the Borrower/Grantee for financing to determine that the items for which financing is requested are eligible under the Agreement or subsidiary documentation. This is done before AID will (1) approve procurement actions related thereto; (2) issue a Letter of Commitment to finance the specified items; or (3) effect disbursement under one of the other mechanisms, such as reimbursing the Borrower/Grantee for payment made from its own resources. In normal practice, such requests are certified by the Borrower/Grantee's consulting engineer as being necessary and appropriate for the activity. Though AID may place considerable reliance on such certifications, AID retains its right of refund based on a post audit.

2) Locally Procured Goods

Where the project provides for AID financing of goods and services procured locally, AID must examine each payment request to determine if the purchase is an eligible item and whether payment will be by the reimbursement method or direct

payments to suppliers on behalf of the Borrower/Grantee. (Note: Procurement procedures for locally financed items may vary from those purchased with AID dollars. Also, the Fixed Amount Reimbursement (FAR) method of financing uses a slightly different verification approach.)

A further verification by AID, with regard to imported as well as locally procured goods, is made through the end-use check on project inputs which may be conducted by the Controller or AID audit group and also by the regular site inspections made by other AID personnel.

3) Financing of Services

The terms of an IFB or RFP and the contracts must specify the nature of eligible services and terms of payment so that verification of services and documents submitted with payment or reimbursement requests can be made against the appropriate contractual clauses. Payments or disbursements by AID are effected as provided for in the contract or Implementation Letters.

Where the contract covers both foreign exchange and local costs, it will normally show these in a "two-currency" breakout. Arrangements are made by the B/G and AID to make payments for eligible foreign exchange components in U.S. dollars or other appropriate currency. Payments for local cost components may be made by AID or the Borrower/Grantee. In these cases, the AID review of supporting payment documentation may rely on certifications by Borrower/Grantee or its consultants that goods and services were provided in accordance with the contract. However, such payments are made subject to periodic verification by site inspections and subsequent to fiscal audits by AID.

b. Eligibility Date of Transactions. Transaction and documentation dates should be checked for conformance with eligibility dates established by the Project Agreement or Implementation Letters.

c. Reasonable Price of Goods. This element is reviewed and passed on by AID as a part of overall contract award and approval process. In certain cases, it may also be reviewed when invoices are submitted or the subject of post audit voucher reviews. The responsible AID officer may seek assistance from contracting or commodity specialists on this matter.

d. Source of Goods. The source/origin of goods offered should be confirmed as eligible at time of bid or proposal evaluation. Subsequent shipping or field inspections and/or checking of payment documentation will reinforce determinations of compliance with contractual terms.

e. Transportation Services and 50/50 Shipping. The source/origin of ocean or air transportation services is determined by the flag of registry of the vessel or aircraft used. Compliance is verified by reviews of Ocean Bills of Lading or Airway Bills and periodic Shipping Reports. (See Note below.) Requirements for the amounts to be shipped in different types of ocean vessels are specified in the Project Agreement and Implementation Letters.

With regard to requirements 4c through 4e above, verification of compliance by AID is normally accomplished by a post audit of documentation submitted in support of disbursement requests. (Also see discussion on administrative approval of vouchers in Appendix 8B and Project Officer's Guidebooks in Supplement 1A to this Handbook.)

Note: Where AID determines that compliance with the "50/50" shipping requirement must be achieved within the scope of a particular activity and to highlight the need for planning, the Borrower/Grantee or its agent is required to file Quarterly Shipping Reports. While this report duplicates the data ultimately collated by AID from the Supplier's Certificate(s), it helps the Borrower/Grantee to remain aware of shipping progress and to plan for the placing of requisite tonnage of oceanborne shipments on U.S. flag vessels, as required by the Agreement. These shipping reports also permit AID to note, at an earlier stage, any serious imbalance in shipping goods on appropriate categories of vessels and to assist the Borrower/Grantee in adjusting its logistics arrangements to correct deficiencies, if any.

f. Nationality of Services. The nationality and eligibility of an individual or firm to provide services (or goods) is established during prequalification. If there is no prequalification, nationality is one of the factors considered by AID in approving the contractor selected for negotiation or award. Subcontractors must also be in compliance as specified in Implementation Letters or attachments, e.g., Handbook 11, Country Contracting.

g. Reasonable Price of Services. This element is reviewed and passed on by AID as part of overall contract review and approval process for services contracts.

h. Notification of Potential Suppliers. This requirement applies in general to the procurement of AID-financed (i) equipment and materials, and (ii) services where formal or informal competitive bidding is appropriate. (See Handbooks 11 and 14 for specific requirements and details.) Monitoring compliance with this requirement usually is accomplished through AID's processing of Borrower/Grantee requests for advertising and collection of sample advertisements placed by the B/G in appropriate newspapers or trade journals. Under certain circumstances, notificatins may be by direct means, e.g., by cable or Telex.

i. Marine Insurance. The responsibility for determination of compliance with this requirement is vested in the Office of the Controller, AID/W. The Geographic Bureaus are furnished with determinations of whether individual countries meet the requirement of nondiscrimination. It is the responsibility of the Controller to inform the Bureau concerned immediately of any change in status. When discrimination occurs, AID corrects the situation by advising the Borrower/Grantee and incorporating in Letters of Commitment or other commitment documents the requirement that AID-financed goods be insured with U.S. marine insurance firms in order to be eligible for AID financing.

j. Marking and Publicity. The techniques used by AID to meet this requirement are set forth in Handbook 15. Where the marking of goods applies, the supplier will find this requirement in its contract and, if appropriate, its Letter of Credit. Where other payment arrangements are used, certification of compliance is usually included in required payment documents. The check of actual compliance with the requirement of marking, publicity and signs at project sites is accomplished by pre-shipment inspections by B/G or AID personnel, end-use checks and site visits.

5. Verifies Compliance with AID Requirements on Items Not Financed by AID.

Pursuant to a standard requirement in AID Agreements, no AID-financed goods or services are to be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in AID Geographic Code 935 (i.e., co-mingling of AID assistance with non-Free World countries.)* [Footnote: *See Handbook 18 for definition of AID Geographic Codes.] Missions should focus on this issue at the earliest possible time in considering an activity for AID financing. Thereafter, periodic

review of Borrower/Grantee development programs involving non-Code 935 countries, site visits to AID projects and reviews of other documentation or information sources will enable monitoring of B/G compliance with this requirement. (See Handbook 1, Supplement B, Chapter 9 for a further discussion of this subject.)

6. Assures that Funding is Available on Time:

   -- works with other AID staff and Borrower/Grantee to assure that Borrower/Grantee contributions are budgeted for and funds released in timely and sufficient amounts.

   -- processes or clears Borrower/Grantee funding requests and documents.

   -- reviews contractors' payment vouchers, as required, and helps Borrower/Grantee resolve payment problems.

   -- reviews periodic dollar and local currency financial reports and helps Borrower/Grantee forecast cash flow requirements.

7. Review Effectiveness of Implementing Agent:

   -- follows Borrower/Grantee personnel selection and participates, when appropriate, in personnel assignment approvals;

   -- reviews Borrower/Grantee management, information and decisionmaking systems;

   -- obtains progress and special reports from the implementing agency;

   -- evaluates performance of the implementing agent (contractor or other).

8. Provides Periodic Information to the Mission Director on the Project:

   -- makes periodic field visits, remains current on all project acitivites and identifies problem areas;

   -- makes analyses of implementation progress, directions and cost issues;

   -- prepares reports including Project Implementation Status Report (see Chapter 11, Section 11F) for Mission Director on progress and problems.

9. Evaluates Projects and Assures Feedback of Information into the Project Management System:

-- supervises AID evaluations and assessments of project management and implementation;

-- makes revisions in project documentation when appropriate;

-- helps Borrower/Grantee mobilize and manage resources to implement evaluation recommendations.

10. Helps Coordinate Donor Project Acitivities (if applicable):

-- assists B/G in establishment of a coordinating and supervision mechanism, including representatives from all participating donors;

-- participates in intra-donor project supervision activities, including preparation of reports and assessments of progress.

11. Gathers Project Information and Documentation and Sees That it is Properly Maintained in the Official AID Project Files:

a. General. Proper development and maintenance of official project files is one of the most important responsibilities of the Project Officer. He/she must make continuing judgments as to the need for recording specific actions and communications and/or retaining records and documentation relevant to the design, approval, negotiation, implementation and operation of a project. There are specific requirements and procedures regarding recordkeeping, filing and project files (see Handbook 21) and each Mission or Office may have additional requirements. Notwithstanding, the Project Officer is responsible for developing and maintaining information and documentation on all aspects of aproject which he/she feels are critical to ensuring or recording the successful completion of the activity. This responsibility includes the gathering and maintenance of data (such as Baseline Data) which will be used by others beyond the PACD, e.g., during special or impact evaluations.

Each Bureau or office in AID/W and overseas missions (C and R Supervisor or other designated employee) is required to prepare a written "Files Plan" which lists the types of files being maintained by the organization, the location of the file station in which each type of official file is maintained and the custodian of

the file station. Beyond the Project Officer and other Committee members, it is the responsibility of all personnel who receive or originate correspondence or other official documents to assure that all such documents are placed in the official files and are not retained in personal or working files. If there is any doubt as to whether an individual should record a conversation or place information relating to the project in the Official Project Files, he/she should consult Handbook 21 and/or the responsible Project Officer.

b. Suggested Organization of Official Project Files. Because Handbook 21 may not answer all questions about setting up files for all kinds of projects, a suggested project files system is given below. In case of conflict, use guidance provided in HB 21.

(1) Project Application File (preliminary work and correspondence)

(2) PID File (including guidance, correspondence and studies)

(3) Project Development File (materials leading to completed PP)

(4) Implementation Folder -

(a) Project Paper and Authorization, plus any amendments
(b) Project Agreement, plus any amendments
(c) Current Correspondence (within 3, 6 or 12-month period)
(d) Conditions Precedent Documents

(5) Financial Transactions File -

(a) Commitment and Payment Summary
(b) Letters of Commitment (all subfiled separately with letters of credit, etc., thereunder)
(c) Direct Reimbursement Documentation
(d) Direct Payment transactions, including bonds, if any
(e) Project cost-to-complete budgets
(f) Other financial information

(6) Contract Files (one for each major contract)

(7) Prior Correspondence Files (by calendar periods)

(8) Procurement Correspondence

(9) Periodic Borrower/Grantee Reports

(10) AID Progress Reports

(11) Project Audits

(12) Evaluation File

(13) Bulk Materials Files (as required).

APPENDIX 11F

GUIDANCE FOR PROJECT SUSPENSION OR CANCELLATION SITUATIONS

1. Scope of Appendix

This Appendix discusses Project Officer and Committee responsibilities when a project or parts of it are to be temporarily suspended or permanently cancelled as under, e.g., Article D: Termination; Remedies of the Project Loan Standard Provisions Annex, Annex 2 to Appendix 6A-1. Guidance given is designed to help Project Officers and Committee Members perform their functions prior to making action recommendations to the Principal AID Officer. Decisions to suspend or cancel an activity are the responsibility of the Principal AID Officer, e.g., Mission Director. Such decisions are normally made on the basis of prior consultation with the respective AID/W Regional Bureau.

NOTE: Some of the guidance herein is relevant to project completion actions since both situations have a common denominator, i.e, actions under contracts or parts of the project may stop. The only basic difference is that completed contracts stop and are reviewed, audited and closed out at the end of the activity. Under certain suspension or cancellation situations, some contracts may be stopped before completion.

2. Definition

a. Completion - The duties set out in the Project Agreement will have been performed and project resources applied in accordance with the terms, conditions and methods agreed upon by the parties. Final activity status or results produced have met or approximated the objectives and implementation mechanisms can be dissolved. Contracts may be audited and/or closed.

b. Suspension - Implementation activities depending upon the flow of uncommitted resources will be temporarily blocked as a result of a unilateral AID decision to suspend or cancel outstanding commitment documents. Since the usual disposition is towards resumption of activities upon removal of the cause(s) of supsension, steps may be taken to temporarily "freeze" financial instruments and commitments at minimum levels.

c. Cancellation - Conditions of default or suspension have not been or are not expected to be overcome within a reasonable period. AID unilaterally cancels its obligation to finance underlying agreements except to the extent that funds for these have been irrevocably committed or disbursed and takes, as appropriate, such other actions provided for under the Agreement. Notwithstanding any suspension or cancellation, provisions of the Agreement remain in full force and effect until payment by the Borrower/Grantee of all monies due thereunder.

3. Documentation: Basis for Options and Decisions

Prudent implementation oversight requires that Project Officers and Committee members keep themselves knowledgeable on the status of projects through the keeping of official files and information generated through good project monitoring. Such documents and knowledge are an essential background for effective project support and serve as the basis for plans and decisionmaking if conditions forecast contract termination(s) or warrant project suspension or cancellation.

NOTE: Although discussed elsewhere in this Handbook, it cannot be overemphasized that the project documentation system provides the Borrower/Grantee, participants and AID with the legal and operational framework for decisionmaking and action-taking. It also records the chain of responsibilities and timing of physical actions which, in total, represent implementation of the project. The Project Officer and Committee members must be thoroughly familiar with all primary (e.g., Agreements) and subsidiary (e.g., Commitments, Credits and Contracts) documentation because they establish legal rights and obligations for "normal" operations, as well as clauses to cover exceptional situations. When a project draws to a close or there are circumstances forecasting possible suspension or cancellation, portions of the project agreement and documentation chain (which to many were "dormant" clauses) assume new significance.

4. Responsibilities Relating to Suspension and Cancellation

Through maintenance of official project files and monitoring of project elements, the Project Officer will have detailed background knowledge on project operations, implementation documentation and participants. Periodic reviews of contracts and observations of the general project environment will serve to inform AID and the Borrower/Grantee as to problems and the possibilities of specific element or project level suspensions and/or cancellations. Cancellation may be precipitated by the Borrower (under Article D, Section D.1 of the Standard Provisions Annex of the Agreement) or AID (under Article D, Section D.3). (Termination; Remedies for

grant agreements is slightly different.) Such actions may affect only one project and particular contracts or may be precipitated under "emergency" type circumstances and affect all projects in a country. Whatever the circumstance, the Project Officer and Committee members are expected to carefully review the status of each project and portions affected and have a clear and legally correct picture of the management options and remedies available to the Borrower/Grantee and AID. Project documentation and the Committee's collective knowledge of operations must be adequate to:

-- Define official objectives, relationships and responsibilities.

-- Identify currently active contracts and participants.

-- Establish physical and financial progress.

-- Forecast the cost and impact of the proposed action.

-- Outline suspension or cancellation procedures.

-- Formulate decision alternatives.

-- Outline action plans which legally and administratively:

  o generate a minimum of risk and hardship to personnel involved;

  o limit disruption of Borrower/Grantee project operations;

  o minimize losses of investments and unconverted resources, and

  o sustain, if possible, a benevolent environment for pursuit of project objectives by others.

5. Suspension and Cancellation Assessment

Since suspension and cancellation actions may occur under urgent and stressful conditions, it cannot be emphasized too strongly that the Project Officer and other Committee members must be knowledgeable as to current progress and have all relevant documents available in the official files. Circumstances of suspension and cancellation may not allow the gathering of missing documents before decisionmaking is required; therefore mission and/or AID/W files should always be complete and current. The

following is a list of documents which Project Committee members should be familiar with and might be reviewed in a typical suspension or termination situation:

Bilateral Agreement (AID-Host Country)

Project Paper, Authorization, Project Agreement

Multilateral or "side" Agreements with other Donors

Implementation Letters

Official Correspondence

Project Implementation Orders

Contracts and Purchase Orders

Letters of Commitment

Letters of Credit

Reimbursement Arrangements (Revolving Funds)

Payment Documents

Progress Reports

Shipping Reports

Evaluations

Invitations for Bid or other commitment actions "in process"

Equipment Ownership Status and Warranties

Performance and Payment Bonds and Guaranties

Insurance Policies

The Committee should carefully review the above documents in light of taking the following actions:

-- Review projects and subproject elements to determine which are/will be affected by a suspension or termination action.

-- Check the AID-Host Country Bilateral Agreement (if any) to determine general options, protections and liabilities.

-- Examine the documentary/contractual linkages between the Borrower/Grantee, AID and each participant to determine the rights and obligations of each party vis-a-vis suspension or cancellation, e.g., AID's assumption of title to goods not yet off-loaded at ports of entry in the Borrower/Grantee's country.

-- Carefully evaluate AID's rights and obligations within such contracts or, if not a party thereto, AID rights, if any, of bilateral or unilateral intervention or dissociation therefrom.

-- Develop decision options and clearly define the operational, financial, legal, political, consequences thereof.

(NOTE: Communications means and time sequences stated in agreements and contracts must be specifically noted and adhered to when decisions are made to take action (s).)

Recommendations to the Principal AID Offices for action will depend upon the particular contract or situation, but should incorporate the following prioritized considerations:

-- Protection and well-being of personnel involved;

-- Legal rights and obligations of AID, the Borrower/Grantee and Contractors;

-- Preservation, if possible, of project objectives and momentum;

-- Conservation of committed AID and Borrower/Grantee resources;

-- Conservation of uncommitted AID resources;

-- Limitation of friction and adverse exposure among all project participants.

In all of the above, there can be no substitutes for good judgment, proper legal advice, and timely actions to protect personnel, programs and property of AID, the Borrower/Grantee and other donors or participants.

6. Suspension and Cancellation Actions

Actions to suspend or cancel project assistance are taken in accordance with procedures contained in the Project Agreement and

Implementation Letters, as appropriate. The full involvement of the Legal Advisor and Controller are required in such decisions and actions.

As soon as AID (i.e., the field mission in consultation with the Bureau) has made a decision to suspend or cancel an activity, prompt and legally appropriate actions must be taken, as appropriate, by AID personnel in the Field and AID/W in the following areas:

-- Notification to Borrower/Grantee (and other lDonors, if any);

-- Notification/instructions to participants and Contractors/Suppliers being financed by AID;

-- Instructions, e.g., stop work orders, to contractors and suppliers under direct AID contracts;

-- AID diversion and assumption of title notices for all goods still in transit;

-- Stop orders for Letters of Commitment and Letters of Credit in process;

-- Marshalling and protection of AID titled equipment and materials;

-- Negotiation and settlement of suspension or cancellation payments to contractors and suppliers;

-- Amendment of agreements and contracts, if necessary;

-- Audit of post-suspension/cancellation status.

CHAPTER 12

PROJECT EVALUATION

CHAPTER 12

PROJECT EVALUATION

12A. Introduction

This chapter discusses the evaluation of AID projects. It begins with a general discussion of evaluation in AID, and then narrows in focus to provide guidance on the procedures and responsibilities commonly associated with the evaluation of projects during implementation. A brief discussion of the relationship between evaluation and the procedures for project completion and close-out is contained in Chapter 14. Project evaluation during implementation and evaluative activities pertaining to project completion are two elements of the overall AID evaluation system. A complete discussion of this system, including its scope, coverage, methodologies and administration, can be found in the AID Evaluation Handbook produced by the PPC, Office of Evaluation (PPC/E).

12B. Definition, Policy and Purpose

1. Definition

Evaluation is the term used by AID to describe the general process, and specific activities, undertaken to analyze and assess the performance and results of projects, programs, policies and/or procedures. The term evaluation is also used to identify the product produced by this process, i.e., an evaluation. Evaluations assess whether planned results are being achieved and what impact, intended or otherwise, a project, program, policy or procedure is having with respect to its environment. The validity and relevance of hypotheses concerning performance and impact, together with assumptions about internal and external factors, are normally examined in the course of an evaluation.

AID's use of the term "evaluation" differs from that of some other development agencies which sometimes apply the term to pre-approval decisions about project feasibility and the studies (appraisals) upon which these decisions are based.

2. Policy

AID's evaluation policies conform to the guidance provided by Section 621A(b) of the Foreign Assistance Act which requires that AID "...establish a management system that includes...:

-- definition of objectives and programs for United States foreign assistance;

-- development of quantitative indicators of progress toward these objectives;

-- orderly consideration of alternative means for accomplishing such objectives; and

-- adoption of methods for comparing actual results of programs and projects with those anticipated when they were undertaken...."

The system AID uses to implement this guidance with respect to project assistance links evaluation to design and requires that project designs provide a basis for the assessment of performance. AID's methods for specifying project objectives, defining performance indicators and examining alternative means for accomplishing objectives are described in Chapters 1, 2 and 3, and in appendices to these chapters. Evaluation methods for comparing the results of projects to their stated objectives are discussed in this chapter and in the AID Evaluation Handbook.

Acceptance of AID assistance by a Borrower/Grantee (B/G) implies participation in the Agency's project design and evaluation system, through requirements included in grant and loan documents. Thus, data gathering and evaluation requirements need to be clearly defined and negotiated with a (B/G) prior to execution of a Project Agreement. (For more detailed guidance on this subject, consult Chapters 3, 5 and 6 of this HB, Handbook 13 and the AID Evaluation Handbook.)

3. Purpose

The purpose of evaluation is to provide an objective and rational basis for making decisions about current and future projects, programs, policies and procedures. This is not meant to suggest that a specific evaluation, i.e., a project evaluation, will attempt to meet so many information needs that it becomes unmanageable. Normally, evaluations are planned and undertaken to provide information that will be used in making a specific or fairly limited set of decisions. Plans for evaluations and evaluation documentation should, nonetheless, recognize that information secured to support one type of decision may be useful in making other types of decisions as well. Thus, AID encourages those who are involved in carrying out an evaluation to be:

-- clear about the questions they are trying to answer;

- responsible in selecting and using data collection and analysis techniques;

-- careful to present their findings, conclusions and recommendations in ways that can be understood by individuals who are outside the specific project or program context.

a. The Focus of Specific Evaluations

The focus of a specific evaluation is the set of evaluation questions which must be answered to provide decision makers with useful information. AID evaluations fall into two general categories, i.e., those which may answer a set of evaluation questions by examining one project, program, policy or procedure and those which must examine more than one project, program, policy and/or procedure to answer a set of evaluation questions. Within each of these broad categories there are several reasons, and types of questions, that provide the specific focus for an evaluation. The following discussion reviews the main reasons for planning and undertaking evaluations. (In contrast to previous guidance, this discussion makes no attempt to attach labels to the reasons for evaluation. The use of labels, while often convenient, may inadvertently work against efforts to ensure that evaluations focus on important questions.)

(1) Evaluations Which Examine One Project, Program, Policy or Procedures

Evaluations which examine a single effort, be that a policy or a set of activities linked under a project or program, tend to be planned and undertaken for one or several of the following reasons:

-- to assess the continuing validity and relevance of an effort and to suggest such modifications as may be required to increase the likelihood that the effort will achieve its objectives;

-- to assess the effects of external and unanticipated actions and/or events on such efforts;

-- to determine, as an effort nears the end of its planned implementation period, whether: all required actions have been carried out and performance to date is consistent with expectations, and what additional actions are needed to sustain the positive effects of the effort;

-- to determine what impact (or change in the environment) has been brought about by or is associated with the effort.

Evaluations undertaken with the first three reasons in mind are usually conducted while a project or program is being implemented, or while the policy or procedure is in effect. Evaluations undertaken to secure information on the continuing validity and relevance of an effort, will normally have been planned and scheduled at the time a project, program, policy or procedure was developed.

Unanticipated events or actions, which are outside the immediate sphere of influence of a project, program, policy or procedure can, on occasion jeopardize the success of an effort. When such external events or factors occur, and it is likely that they will influence or affect project or program success, an evaluation should be conducted to determine whether the project or program should be continued and/or how it should be modified. The specific questions to be answered in such an evaluation would depend on the type of external influence that is to be examined (e.g., a hurricane, a change in government, etc.) and the specific project, program, policy or procedure.

As the end of a project or implementation period approaches, or prior to terminating a policy or procedure, evaluations can be undertaken to assess the results achieved as well as to identify follow-up actions which need to be taken. Evaluations having this focus should be planned at the time a project, policy or procedure is developed. Even if such an evaluation had not been planned, it is appropriate to conduct one whenever it appears that supplementary actions may be required. For example, when the expansion or replication of an effort is being considered, or when activities begun with AID funding will need to be continued by a host government or another party in order to sustain their benefits, an evaluation can provide the basis for decisions about these actions.

An evaluation of the impact of a project, program policy or procedure can be undertaken as soon as the changes an effort was expected to bring about can be observed and measured. In some instances, the changes in an environment or beneficiary group will be observable during an implementation period, or just after the effort terminates. In other cases, these evaluations will have to wait several months or years if impact is to be assessed. Impact evaluations, which focus on the positive and negative, planned and unplanned effects of a project, program, policy or procedure can be planned at the time such efforts are developed. AID may also from time to time choose to evaluate the impact of specific efforts as a

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means for securing information that can guide the planning of future efforts or document the results of AID-financed activities.

(2) Evaluations of More Than One Project, Program, Policy or Procedure

In addition to information on the efficiency, effectiveness and impact of specific efforts, AID occasionally requires information or answers that can only be secured if more than one effort is examined. Listed below are some of the types of questions AID might seek to answer through evaluations of more than one project, program, policy or procedure:

-- How effective is a specific course of action under varying conditions? (For example, are there differences in the efficiency, effectiveness and impact of projects of the same type in different developing countries?)

-- What are the combined effects of AID's efforts in a specific area or on a specific target group? (For example, what has been the impact of AID policies, program lending, PL 480, PVO and bilateral projects in one part of a developing country?)

-- Which of several courses of action has been most effective for addressing a common problem? (For example: AID has three types of projects it frequently employs to address a specific problem. Which of these is most cost-effective in practice and which has the greatest impact?)

Each of the illustrative questions above requires that an evaluation examine more than one project, program, policy or procedure if an adequate answer is to be developed. While specific questions precipitating these evaluations differ from those asked in the evaluation of a single project, program, policy or procedure, the general reasons for undertaking these evaluations remain the same. Evaluations of multiple efforts thus allow AID to: determine the validity of continuing a course or type of action; redirect or terminate it; identify the implications of external events; and assess impact.

As indicated in the foregoing discussion, projects can be the subject of several evaluations, each of which seeks the answers to somewhat different evaluation questions. Since the AID Evaluation Handbook contains detailed guidance regarding the methodologies of project, program, policy and procedure evaluations and the use of their findings, the remainder of Chapter 12 will confine its discussion to

those evaluations which are likely to be undertaken during the implementation and operations phases of a project. Chapter 14 briefly discusses the relationship between these evaluations and project completion or close-out procedures.

b. The Benefits of Project Evaluation

In addition to providing AID, recipient countries, Borrower/Grantees and other participants with information needed to allocate resources and improve specific projects, evaluations undertaken in the earlier stages:

-- provide a mechanism for objectively reviewing project issues and opening communications which lead to the solution of problems;

-- reinforce judgments and commitments of project participants, thereby improving participation and motivation levels;

-- become an additional means for recording and disseminating information of development issues and problems;

-- provide those outside of the project with evidence that a process for managing, assessing and redirecting the project exists and operates to improve the chances for project success.

Evaluations undertaken in later stages of a project, or after AID financing has terminated, benefit somewhat different audiences. They provide:

-- Information that can be used in planning the operational phase of a project, a follow-on project, or a similar project in a completely different environment.

-- A basis for the development of new hypotheses about the best ways to achieve specific objectives in a developing country context, and hence the momentum for further experimentation;

-- For a for reviewing the ways in which AID funds were expended and to what ends, i.e., with what benefits and what type and degree of benefit distributions;

12C. Evaluation Approach and Relation to Other Functions

1. Integrated Approach

The overall AID management system, required by FAA Section 621A(b), includes several administrative segments. Evaluations is one of them. How other segments relate to evaluations is discussed below.

2. Project Design

a. Project design is viewed as providing the objectives, ingredients and methodology for implementation, and the criteria against which evaluations of performance are undertaken. The quality of project design and Logical Framework elements will affect evaluation efforts and results. The elements of project design (i.e., objectives, indicators, targets, assumptions, baseline information, etc., as discussed in Chapter 3) are important to evaluation planning. Further, designs must be clear as to what constitutes the Beginning of Project Status (BOPS) and the End of Project Status (EOPS) on those factors (variables) that are expected to change.

b. In addition to basic design elements described above, the Project Paper (PP) will normally include an Evaluation Plan. The requirements for the plan are described in Appendix K to Chapter 3 of this Handbook. PPs may defer development of a more detailed Evaluation Plan until key project personnel are on board.

3. Relationship to Programming Decisions

When AID undertakes phased, or incrementally funded, projects a special relationship between evaluation and planning pertains. In these projects there is a predictable need for evaluative information around the time each project phase ends. During these periods, AID expects that project evaluations will be conducted which provide a basis for making decisions about the project's continuing relevance, value and direction. By calling for evaluations prior to subsequent phases of projects, AID hopes to ensure that projects of this type will move forward based on sound evidence of their value rather than on simple momentum. In projects which are consciously experimental (i.e., they test a specific technology or method of technology transfer) a similar situation exists. The avowed purpose of this type of project is to secure the information AID needs to determine whether the project approach is viable and suitable for wider use.

Hence, evaluations of these projects have a direct connection with the Agency's programming process and deserve special attention in their execution as well as in the project's design statement on evaluation (See Appendix 3K).

4. Monitoring

Evaluation differs from the monitoring of project implementation activities in that evaluations are more concerned with the internal consistency and viability of a project. As such, they are conducted only a few times over the project life. Monitoring is an ongoing function within the project. Monitoring involves the continuous or periodic collection of information on activities, expenditures, output production and other factors which influence a project's progress and schedule. Monitoring responsibilities include being sensitive to changes within and beyond the project environment and to precipitate decisions to conduct an evaluation if one appears justified.

Monitoring and evaluation are functions that overlap in the sense that they rely on much of the same information and because they both share a common objective -- improve the chances of project success. During project implementation, monitoring efforts should be concerned not only with whether certain events are occurring as planned but also with the continued likelihood that the project will achieve its purpose. One of the responsibilities of project management is to identify occasions when deviations from the project plan raise questions about the project's ability to achieve its objectives. On such occasions the project manager or AID project officer may call for an evaluation as a way of focusing attention on problems and defining replanning actions that can be taken.

5. Auditing

Another function to which evaluation is related is auditing. Auditing and evaluation frequently ask similar questions, especially when auditing focuses on program questions. Auditing normally concerns itself more with implementation and compliance problems and is usually performed by personnel not involved in program operations (either by GAO or AID/IG). Audits normally look at a particular subject within several projects. They may provide information of value to project personnel, but are not substitutes for periodic evaluations.

6. Budgeting and Funding for Evaluation Activities

Evaluation activities are normally funded within the project budget, by the B/G, or with AID funding outside the project. Where possible the funds for project evaluation should be part of the project

budget. Estimates of costs made when the project is first designed should include provisions for collecting and analyzing baseline and progress data and, if needed, for evaluative consultants. If AID and the B/G are to pay for evaluation costs from planning or administrative funds outside of the project, then these commitments should be negotiated and recorded in the PROAG Annex.

12D. Evaluation Efforts - Borrower/Grantee Role

1. Collaborative Participation

The B/G should have a major role in the evaluation process since it normally provides a significant part of the resources needed for a project, usually has primary responsibility for management and implementation, and collects and processes much of the data. B/G personnel should participate in AID evaluations (or, preferably, we in theirs) and use the results. Such collaborative evaluations have several advantages. They facilitate more complete development of facts, including clarification of host country priorities for the project, help inform B/G officials and improve their evaluation capabilities. Joint evaluations are more likely to produce realistic recommendations and result in more timely and effective remedial actions by all parties. A similar rationale calls for involving officers of participating institutions, where possible, in the evaluation of centrally funded projects.

Maximum use should be made of existing B/G evaluation resources even though such resources may be located in an organizational entity outside the project group. LDC representatives including project participants/beneficiaries can also provide expertise and insights as members of evaluation panels. Where B/G capability for evaluation is lacking, the Mission should assign high priority to building these skills, both on a general and project-specific basis. Building the recipient country capabilities for conducting evaluations is also an accepted category of technical assistance, and funding should be included in the project or Mission technical assistance program.

Collaborative evaluations can present difficulties, especially relating to fact-finding issues and recommendations for remedial actions. Difficulties may also arise from uncertainties as to authorities and responsibilities within the overall project, unavailability of key participants, and the need for separate AID and B/G sessions to deal with internal management issues. Such potential drawbacks may be overcome through more informal participation arrangements and careful advance planning of evaluation activities. Joint briefings as to evaluation progress and findings are especially important when B/G officials are unable to participate fully in the evaluation.

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2. Focusing Evaluation Efforts

A well designed evaluation effort can provide information that is useful for AID and B/G decision making, and for decision makers at several management levels. Collaborative evaluations should be planned and undertaken with the information needs of different levels of a project in mind. In many projects there are questions evaluations can answer about a total effort, i.e., the national or central management concerns, as well as questions which, if addressed, would provide operational guidance at the local level, i.e., for individual clinics, schools or cooperatives.

The target audiences for any specific evaluation should be clearly defined and involved to the maximum extent feasible in both the planning and conduct of an evaluation. AID should encourage B/Gs to identify the various levels of a project that can benefit from evaluation, and involve managers at these levels in the identification of evaluation questions, the management of the evaluation process, and the review of evaluation findings, conclusions and recommendations. For further guidance on planning evaluations that address particular audiences and types of issues, at different points in a project, see the AID Evaluation Handbook.

12E. AID Roles and Responsibilities

1. Bureau Responsibilities

Regional and Central Bureau Assistant Administrators are responsible for the administration of all project and nonproject assistance within their jurisdictions. These responsibilities include management and/or oversight of project implementation activities and the evaluation thereof. Each Bureau is responsible for the development and supervision of its own arrangements for conducting evaluations and the utilization of evaluations and recommendations. Questions concerning Bureau requirements should be directed to the Bureau Evaluation Officer.

2. Mission/Office Responsibilities

a. Principal AID Officer - Mission and AID/W Office Directors are responsible for the planning, conduct and utilization of evaluations in accordance with Bureau requirements and procedures. (Units will differ in the organization for and administration of these requirements, but in general will accommodate the functions and divisions of duties described below.)

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b. Project Officers - Responsibility for evaluation of projects during implementation is assigned to the Project Officer as Chairperson of the AID Project Committee. Responsibility is so placed because the Project Officer is in the best position to precipitate changes indicated by evaluation findings. The activities to be performed are described in the following sections. Project Committee members are normally assigned varying responsibilities for monitoring progress and many projects have specialists working under contract or agreement with the B/G organization. These Committee members and contract personnel are expected to provide the data and information needed and to participate in the evaluations.

c. Evaluation Officers - Each Mission or Office is required to appoint an Evaluation Officer who is responsible for management of the unit's evaluation system. Duties of Evaluation Officers are as defined in Bureau and Mission evaluation systems. They assist Project Officers in planning and conducting evaluations and reporting evaluation findings and decisions. Additional guidance is available in the AID Evaluation Handbook.

3. Evaluation and Decision Making

AID encourages full collaboration with and the participation of recipient country and B/G officials in evaluations so as to make maximum use of and develop recipient country capabilities. Also, where appropriate, outside consultant assistance should be used to augment AID and B/G resources. Notwithstanding, the AID Project Officer and management evaluation review group are responsible for the proper conduct of evaluations and decision making with respect thereto. Therefore, AID personnel must involve themselves in the evaluations to ensure that they yield information the B/G and/or AID need to make project decisions.

4. Office of Evaluation, PPC/E

The Evaluation Office in the Bureau for Program and Policy Coordination (PPC/E) is responsible for coordinating AID evaluation activities and overseeing the quality and performance of Bureau evaluation systems. PPC/E also develops improved methodology, guidance and instructional material for evaluators (e.g., AID Evaluation Handbook) and supervises impact evaluations of completed projects. Specific questions on evaluations and methodologies should be directed to this Office.

12F. Summary of Evaluation Phases

Evaluations conducted during project implementation consist of five general steps which are distinguished by the nature of the tasks and personnel involved:

-- Scope of Work, i.e., identification of the primary reason for an evaluation, the main audience for the evaluation findings and the specific questions the evaluation must address, developed by AID and B/G personnel;

-- Evaluation Design, i,e, the identification of the overall approach to answering a set of evaluation questions, prepared by AID and recipient country or B/G staff, with assistance as necessary, from external specialists.

-- Data Collection and Analysis performed by AID and recipient country or B/G staff, with assistance as necessary, from external specialists.

-- Evaluation Management Review conducted by evaluation team members and B/G management personnel.

-- Reporting by the AID evaluation team leader on findings and decisions of the Review.

More detailed information on the conduct of evaluations and guidance regarding methodologies, etc., may be found in the AID Evaluation Handbook. This material should be consulted prior to initiating project evaluation activities. Keep in mind, however, that the above "steps" tend to overlap or be iterative, in many cases. The following is a summary of typical actions for organizing and conducting an evaluation of the project and its environment.

-- defining the reason(s) for the evaluation and its target audience(s);

-- planning and organizing for the evaluation;

-- clarifying project design;

-- assessing changes in the project setting;

-- defining progress to date (i.e., physical, financial, participation, benefit incidence);

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- identifying unexpected or unplanned effects;
- determining causes of progress or lack thereof;
- conducting the evaluation review;
- preparing a record of the evaluation findings and decisions;
- implementing the decisions that result from an evaluation review.

12G. Evaluation Reporting

The results of an evaluation are discussed and recorded in a summary report. The purposes of such reports are to:

- record evaluation activities, review proceedings and decisions;
- inform interested AID offices that an evaluation has taken place for a particular project;
- summarize progress, project status and other major findings for use by AID/W and/or participating agencies and contractors;
- define lessons learned for use by others with similar problems or in the design and reviews of similar projects.

2. Format and Content of Summary Report

Evaluation reporting is a responsibility of the Project Officer, with assistance, as necessary, from the unit Evaluation Officer. Guidance on the preparation of summary reports is provided in Appendix 12A and amplified in the AID Evaluation Handbook. A cover sheet to the report identifies the project and records decisions reached about follow-on actions. If actions are to be taken by AID/W, a formal action request (i.e., cable) must be submitted to the office concerned.

3. Distribution of the Summary Report

a. Copies of the completed evaluation report shall be distributed to program personnel for use and record keeping and B/G officials, as appropriate.

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b. The Report and attachments shall be forwarded to AID/W for printing and distribution, according to procedures issued and confirmed annually. Adherence to the procedures will enable appropriate distribution to interested personnel.

c. Copies of evaluation reports, as well as other project documents, are retained in the AID Reference Center, Office of Development Information and Utilization, Bureau for Science and Technology (S&T/DIU) for use by interested personnel. S&T/DIU publishes accession lists and abstracts periodically and furnishes copies of such documents upon request.

12H. Annual Evaluation Planning

Every year, Missions and AID/W offices which manage projects will prepare an overall evaluation plan, which will contribute to the Agency Annual Evaluation Plan. This plan will address both current needs and future requirements that can be foreseen from the programming cycle. The evaluation plan is considered when preparing an Annual Budget Submission to ensure that personnel requirements are reviewed and funds programmed for evaluation activities. The potential availability of key AID, B/G, or contractor personnel should be taken into account when preparing the plan. The format for annual evaluation plans is contained in guidance issued annually by PPC/E. Additional information regarding the preparation of the evaluation plan and the selection of projects for evaluation is contained in the AID Evaluation Handbook.

12I. Impact Evaluations

In 1979, AID instituted a program of impact evaluations. The AID impact evaluation series examines sets of projects on topical areas of interest to AID's senior staff. The topics for the AID impact evaluation series are determined annually by the Administrator and the Agency's senior staff through a process managed by PPC/E/S. These evaluations supplement and complement the evaluations undertaken by Missions and Bureaus. They are conducted principally by AID personnel and focus on the final outcomes of projects--project impact, the actual beneficiaries of project efforts, and the longevity of project effects.

Evaluations undertaken in this program are published by PPC/E. When several evaluations of a specific type have been undertaken, the findings of these evaluations are synthesized, together with other

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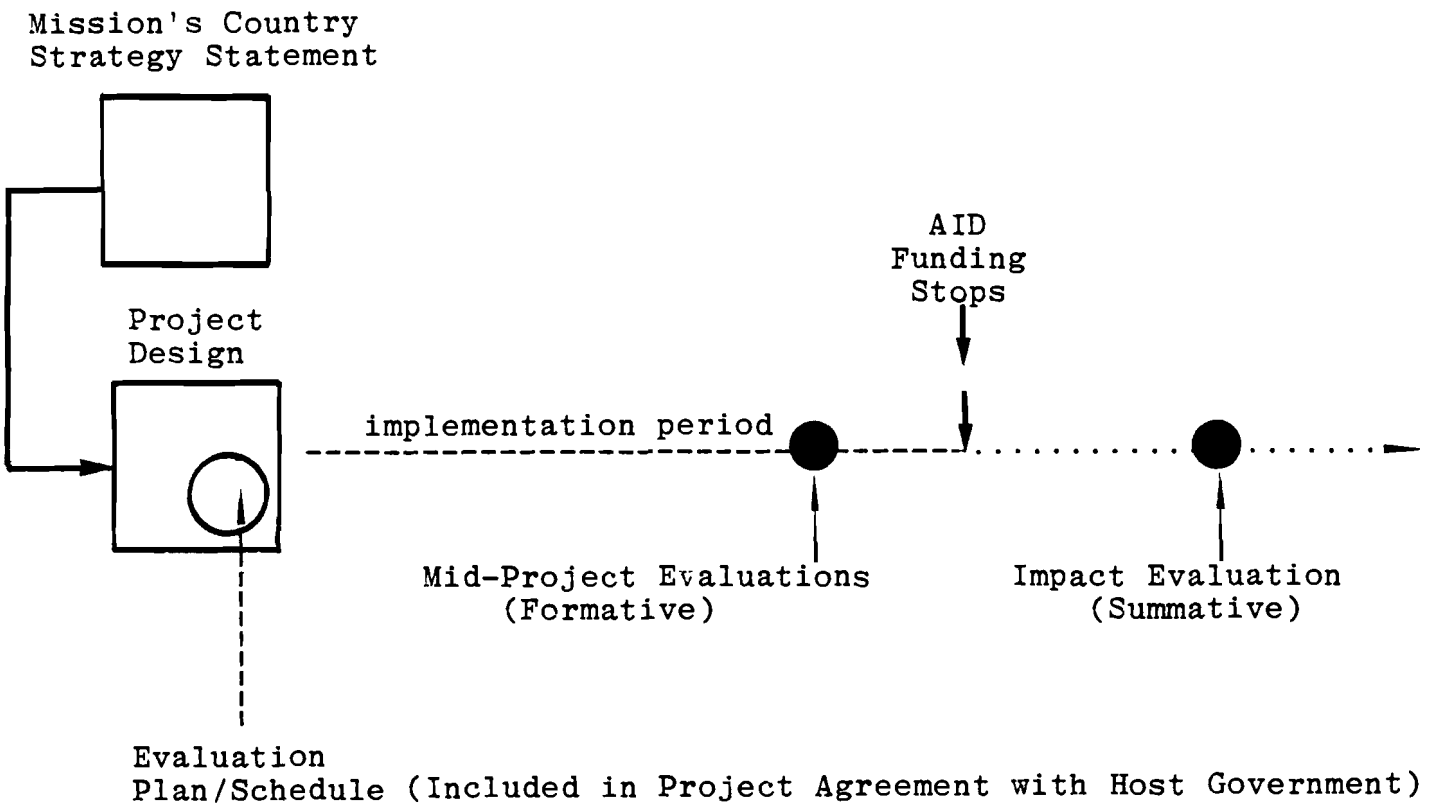
literature, and published as a program evaluation to form a basis for future policy and project design. For further information on the Impact Evaluation series, see the AID Evaluation Handbook and/or contact PPC/E/S.

Appendices:

12A - Instructions for Completing the Project Evaluation Summary
12B - General Guidelines for Evaluations Conducted During Implementation
12C - Adaptations of Evaluations for Particular Types of Projects

The A.I.D. Project Cycle



-- what do we need to measure?
-- when must data be collected?

MID-PROJECT EVALUATIONS (FORMATIVE)

- o Feedback to project management/feed forward to designers of new projects
- o Focus on progress toward objectives/trigger for replanning

IMPACT EVALUATIONS (SUMMATIVE)

- o What are the development benefits? What works/what doesn't
- o Feedforward to program and project designers
- o Feedforward to policy formulation process

INSTRUCTIONS FOR COMPLETING FORM AID 1330-15 & 15A, PROJECT EVALUATION SUMMARY (PES)—PART I & II

EVALUATION PROCESS - Officials of the Host Government and AID Mission should collaborate in periodic evaluation of the progress of each project. (For AID/W projects, participation of grantees is appropriate.) Timing of such regular evaluations should be linked to the key decisional requirements of the project, as listed in the Evaluation Plan included in the Project Paper and as confirmed in the Evaluation Schedule of the Annual Budget Submission; otherwise annually. A description of the evaluation process is found in Handbook 3, Part II, Chapter 8.

PURPOSES OF SUMMARY - The Project Evaluation Summary (PES) is prepared after each review to record information which is useful both to the implementors (including the Host Government and contractors) and to concerned AID/W units. It serves four purposes:

(1) Record of decisions reached by responsible officials, so that those who participated in the evaluation process are clear about the conclusions, and so that headquarters is aware of the next steps.

(2) Notice that a scheduled evaluation has been completed, with a brief record of the method and participation for future reference.

(3) Summary of progress and current status for use in answering queries.

(4) Suggestions about lessons learned for use in planning and reviewing other projects of a similar nature. The PES and other project documentation are retained in DS/DIU/DI and are available to project planners.

CONTENTS OF SUMMARY - A PES submittal has two parts, plus relevant attachments if any.
PART I REQUIRED: Form AID 1330-15 contains identifying information about the project and evaluation (Items 1-7), action decisions about the projects future (Items 8-10), and signatures (Items 11-12). Since the PES reports decisions, it is signed by the Director of the Mission or AID/W Office responsible for the project. Space is also provided for signatures of the project officer, host country and other ranking participants in the evaluation, to the extent appropriate.

PART II, OPTION 1: For regular evaluations, use continuation sheets to respond to Items 13-23 as outlined in the attached Form AID 1330-15A.

PART II, OPTION 2: For a special evaluation, the reporting unit may opt for a somewhat varied format, with a different sequence or greater detail in some areas, however, Items 13-23 should all be addressed.

ATTACHMENTS: As appropriate, reports of host governments, contractors, and others, utilized in the preparation of the evaluation summary, should be labeled A, B, C, etc., attached to the PES submittal (Missions are to submit 7 copies and AID/W Offices 7 copies) and listed under Item 23. Where it is necessary to transmit these source documents separately from the PES, Block 23 of the PES should note how this material was transmitted, when, number of copies and to whom.

SUBMITTAL PROCEDURE: Missions will submit the PES Facesheet, continuation sheets, and attachments under cover of an airgram which will be received by the Cable Room. AID/W Offices will submit the PES Facesheet, continuation sheets, and attachments to MO/PAV, Room B-930, NS under cover of a memorandum which cites any distribution instructions beyond the standard distribution. All AID/W Offices and most Missions will use the blank cut PES Facesheet and plain bond for continuation sheets, which can be reproduced on copiers. Those Missions preferring to use hecto, may order the form in hecto sets from AID/W, Distribution Branch. There will be a standard distribution made in AID/W of all field-originated PES's. Copies will be sent to the corresponding bureau's DP, DR, the country desk and Evaluation Office. Other copies will be sent to PPC, SER, PDC and DS (including DI and ARC). For AID/W-generated PES's, copies will be distributed to all bureaus.

CLASSIFICATION

PROJECT EVALUATION SUMMARY (PES) — PART I

Report Symbol U-447

1. PROJECT TITLE	2. PROJECT NUMBER	3. MISSION/AID/W OFFICE

4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) _____

☐ REGULAR EVALUATION ☐ SPECIAL EVALUATION

5. KEY PROJECT IMPLEMENTATION DATES

A. First PRO-AG or Equivalent FY____
B. Final Obligation Expected FY____
C. Final Input Delivery FY____

6. ESTIMATED PROJECT FUNDING

A. Total $ _____
B. U.S. $ _____

7. PERIOD COVERED BY EVALUATION

From (month/yr.) _____
To (month/yr.) _____

Date of Evaluation Review

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

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

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

10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT

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

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

12. Mission/AID/W Office Director Approval

Signature

Typed Name

Date

PROJECT EVALUATION SUMMARY (PES) — PART II

The following topics are to be covered in a brief narrative statement (averaging about 200 words or half a page per item) and attached to the printed PES facesheet. Each topic should have an underlined heading. If a topic is not pertinent to a particular evaluation, list the topic and state: "Not pertinent at this time". The Summary (Item 13) should always be included, and should not exceed 200 words.

13. **SUMMARY** - Summarize the current project situation, mentioning progress in relation to design, prospects of achieving the purpose and goal, major problems encountered, etc.

14. **EVALUATION METHODOLOGY** - What was the reason for the evaluation, e.g., clarify project design, measure progress, verify program/project hypotheses, improve implementation, assess a pilot phase, prepare budget, etc? Where appropriate, refer to the Evaluation Plan in the Project Paper. Describe the methods used for this evaluation, including the study design, scope, cost, techniques of data collection, analysis and data sources. Identify agencies and key individuals (host, other donor, public, AID) participating and contributing.

15. **EXTERNAL FACTORS** - Identify and discuss major changes in project setting, including socio-economic conditions and host government priorities, which have an impact on the project. Examine continuing validity of assumptions.

16. **INPUTS** - Are there any problems with commodities, technical services, training or other inputs as to quality, quantity, timeliness, etc? Any changes needed in the type or amount of inputs to produce outputs?

17. **OUTPUTS** - Measure actual progress against projected output targets in current project design or implementation plan. Use tabular format if desired. Comment on significant management experiences. If outputs are not on target, discuss causes (e.g., problems with inputs, implementation assumptions). Are any changes needed in the outputs to achieve purpose?

18. **PURPOSE** - Quote approved project purpose. Cite progress toward each End of Project Status (EOPS) condition. When can achievement be expected? Is the set of EOPS conditions still considered a good description of what will exist when the purpose is achieved? Discuss the causes of any shortfalls in terms of the causal linkage between outputs and purpose or external factors.

19. **GOAL/SUBGOAL** - Quote approved goal, and subgoal, where relevant, to which the project contributes. Describe status by citing evidence available to date from specified indicators, and by mentioning the progress of other contributory projects. To what extent can progress toward goal/subgoal be attributed to purpose achievement, to other projects, to other causal factors? If progress is less than satisfactory, explore the reasons, e.g., purpose inadequate for hypothesized impact, new external factors affect purpose-subgoal/goal linkage.

20. **BENEFICIARIES** - Identify the direct and indirect beneficiaries of this project in terms of criteria in Sec. 102(d) of the FAA (e.g., a. increase small-farm, labor-intensive agricultural productivity; b. reduce infant mortality; c. control population growth; d. promote greater equality in income; e. reduce rates of unemployment and underemployment). Summarize data on the nature of benefits and the identity and number of those benefitting, even if some aspects were reported in preceding questions on output, purpose, or subgoal/goal. For AID/W projects, assess likelihood that results of projects will be used in LDC's.

21. **UNPLANNED EFFECTS** - Has the project had any unexpected results or impact, such as changes in social structure, environment, health, technical or economic situation? Are these effects advantageous or not? Do they require any change in project design or execution?

22. **LESSONS LEARNED** - What advice can you give a colleague about development strategy, e.g., how to tackle a similar development problem or to manage a similar project in another country? What can be suggested for follow-on in this country? Similarly, do you have any suggestions about evaluation methodology?

23. **SPECIAL COMMENTS OR REMARKS** - Include any significant policy or program management implications. Also list titles of attachments and number of pages.

APPENDIX 12B

GENERAL GUIDELINES FOR
EVALUATIONS CONDUCTED DURING IMPLEMENTATION

The following information should be used as a guide for actions taken by the evaluation team during the preliminary analysis phase of a project evaluation. Adjustments in this approach should be made depending upon circumstances in the cooperating country or AID/W Office, the project and/or the operation style of the personnel involved.

1. Preliminary Analysis - Organizing for Work

a. Prior to the scheduled Evaluation Review, the Evaluation Officer and Project Officer meet with the B/G Project Manager to review evaluation objectives and decide who should participate in the process, e.g., host country project staff, contractors, U.S. personnel and possibly representatives of planning and finance offices.

b. At the initial meeting of participants, the Evaluation Officer discusses the evaluation system methods and objectives. If all are not familiar with evaluation and the AID system, a thorough discussion of concepts and procedures will save time in the long run. Project staff then begins to obtain and organize the necessary information.

c. Working sessions should be brief and scheduled over a reasonable period of time. Continuous sessions covering several days are likely to interfere with other duties.

d. The B/G evaluation official, AID Evaluation Officer or other person familiar with evaluation procedures should guide team members during the analysis. The AID Evaluation Officer may act as rapporteur, thus facilitating preparation of reports and recommendations for internal AID use. It is highly important that the relationship between the B/G, AID, the Evaluation Officer (or whoever guides the process) and other representatives should at no time be permitted to become that of adversaries. Team relationships should be based on mutual respect and cooperation.

2. Assess Changes in Project Setting

a. The first analytical task for the Team is to determine whether significant changes have occurred in the host country setting (or institutional setting for centrally funded projects) since the last evaluation. Also, the project's continuing conformance with AID policy

and statutory provisions is to be examined. The reason for pre-evaluation assessment is to see whether the project is still relevant or adjustments in its design are needed to coincide with current B/G and AID policies and priorities. Projects should be discontinued when they are no longer necessary or consistent with the current or projected conditions. In other instances, targets may need to be reformulated. Where the pre-evaluation assessment concludes that substantive changes are advisable, it may not be necessary to evaluate progress except, perhaps, to define the basis for new departures. The most important evaluation recommendation -- to discontinue or redirect the project -- might be made without spending the time and effort to do other evaluation tasks.

b. Assessment of the project setting need not be exhaustive. It requires only that obvious changes be identified and weighed to see if they are substantially affecting project relevance, design or progress. Illustrative items to consider are changes in:

-- host country (or U.S.) development policies and priorities.

-- the nature and size of the problems addressed.

-- physical and environmental conditions.

-- economics, demand, competitiveness, cost (e.g., oil prices).

-- attitudes and other social variables.

-- institutional capacity to implement the project.

3. Clarify the Project Design

a. Although the project design was reviewed prior to authorization, it should be rechecked in light of better understandings of the project setting and experience with implementation. It may now be possible to sharpen targets and identify more practical indicators, making the project more realistic and simplifying the evaluation. Such improvements, however, should not change the nature of the project.

b. If recommended changes in project design resulting from pre-evaluation are minor, the evaluation of progress can proceed. If major, it may be appropriate to postpone further evaluation activities until recommended changes are processed by the B/G and AID, and, if appropriate, renegotiation of Project Agreement or contracts. In this case, evaluation efforts would be rescheduled to fit the revised project.

c. Re-examination of the most recent logical framework matrix is the next step. Some older projects may not have a matrix, in which case one should be prepared from available information. This is likely to be the case for some grant-financed, P.L. 480 and housing guaranty projects for which the logical framework has only more recently been required.

d. Re-examination of the logical framework should being with the project purpose. Is it a concise statement of a solution to a problem, without compression of means and ends into a single statement? Does the list of End-of-Project Status conditions meet the four tests of good indicators: plausibility, independence, verifiability, and targeting for amount and time? (Note that EOPS may not occur until some time after project assistance has terminated.) Can data needed to verify each indicator be found in a usuable form and at reasonable cost? Does the list of assumptions cover external factors which are critical for successful transition from output production to purpose achievement? Similar questions for inputs, outputs and goal should be raised to assure that all design elements are stated in sufficiently precise and verifiable terms to permit meaningful evaluation. (See AID Evaluation Handbook for further details and guidance.)

e. Other elements of design, e.g., socio-economic feasibility and identification of beneficiaries, should be examined to confirm their continuing validity.

The foregoing completes the pre-evaluation review and the working group can now start the actual evaluation.

4. Assess Progress and Search for Causes

a. Criteria used by AID in evaluating its projects are built in at the design stage and consist of three types of standards:

-- responsiveness of the project to the development needs of the target group and priorities of the B/G;

-- conformance with AID statutory and policy provisions, such as equitable sharing of the benefits of economic growth;

-- specification of project targets.

A well designed project will have incorporated the first two types of standards in its targets. Therefore, the evaluation team should be able to test the project entirely by performance against the predictions contained in the logical framework and Critical Path Indicator network.

b. Analytical methods determine, to a large extent, the degree of objectivity in an evaluation. Subjective judgment is helpful, but not a substitute for, analysis of data. Six different analytical methods, in descending order or rigor, are available to the evaluation team (see Evaluation Handbook for details):

-- Experimental design with random selection

-- Cross-sectional analysis

-- Quasi-experimental design

-- Before and after studies

-- Hypothesis verification

-- Case study.

c. Progress assessment is a relatively straightforward activity if targets and progress indicators were carefully devised during project design and if progress data have been collected regularly during implementation. Information on the availability, installation and utilization of inputs and the production of outputs will be available through the monitoring process. For purposes of evaluation, such input-output information may simply need to be summarized, although analysis as to suitability and timeliness of inputs will be needed (see d. below). Judging whether the purpose will be achieved will be difficult while the project is still being implemented. Nevertheless, project officers should now have some evidence that inputs and outputs are adequate and suitable to permit achievement of the project purpose.

d. Explanation of the results: When progress has been assessed, the evaluation team then searches for an explanation of what they have observed. In those cases where progress toward established targets is proceeding as planned, the evaluators should attempt to determine the extent to which such progress is attributable to the project or to other factors. For example, if agricultural production increased in an area with an agriculture production project, were increases more or less than in other comparable locations? To what extent was the change due to weather or prices, rather than to the project? If it is established that the contribution of the project is not significant, then the evaluators should recommend redesign or that it be discontinued and its resources allocated elsewhere.

The discovery or correct identification of contributing and/or causal factors will help project management maximize project benefits and permit the transfer of lessons learned to other project designers.

If progress assessment demonstrates that the project is not moving satisfactorily toward its planned targets, the evaluators must establish the reason. If the planned outputs are not being achieved on schedule, the explanation might be found in one of several categories:

-- planned output levels and timing were too optimistic;

-- inputs were not available when or where needed, inappropriate, or not adequate in amount and/or quality;

-- implementation planning was incomplete or inaccurate in scheduling commodity/equipment deliveries, construction, training or some other implementation action;

-- the performance of one or more of the implementation participants (suppliers, trainers, contractor/PASA, AID/W backstoppers, B/G personnel, other donors) was inadequate;

-- exogenous variables or assumptions changed.

If outputs are being produced, but the End-of-Project Status (EOPS) indicators show that scheduled purpose achievement is not occurring, the explanation may be that the project design was unrealistic, i.e., it proposed an unattainable level of expectation, or was flawed in other respects. Contributing and causal factors often found at this level are:

-- linkages between the project, other institutions and beneficiaries;

-- performance of collateral projects, programs and policies relating to the same sector goal;

-- effectiveness of incentive systems and motivational techniques;

-- behavior of market forces, changes in effective demand, absorptive capacity.

During the later stages of implementation, it is often possible to detect early signs of contributions of the project purpose to the subsector or sector goal. If the goal level indicators suggest that this planned contribution is not beginning to occur, then the contributing and/or causal factors might be found in:

-- level and nature of economic activity, e.g., demand, price and employment levels;

-- policy, legislation and institutional factors impinging on the project;

-- effect on the development program of political climate stability;

-- changes in beneficiary roles and receptivity.

Whether the search at each level is for explanation of success or failure, that explanation may be ascertained by:

-- Comparisons between treated and untreated geographic areas or target groups, either on the basis of controlled experiment or even on a quasi-experiment, post hoc basis. Such comparisons are the most reliable way for explaining associative and/or causal relationships.

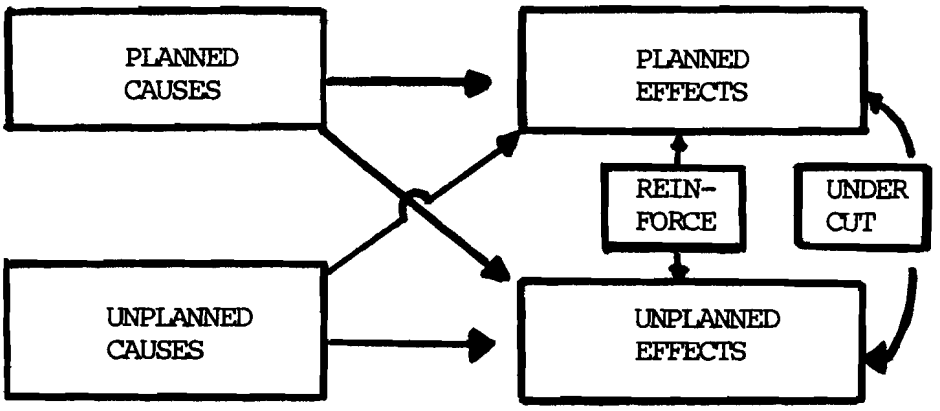
-- Process Analysis. By looking at the project process, i.e., the sequence of events and actions, it may be possible to determine the impact of the process on observed results.

-- Alternative Hypotheses. Attempts to explain observed results by devising alternative hypotheses or explanations. If no persuasive alternatives can be developed, or if all alternative explanations can be disproved, then the original hypothesis is at least partially validated.

5. Identification of Unexpected Effects

Unexpected effects are one of the important topics of an evaluation. Project planning deals with planned causes and effects. But these causes, especially in the uncertain socioeconomic environment of a less developed country, will also have unplanned effects. Further, unplanned causes will contribute to planned effects and the various planned causes and effects can interact with each other. Even in diagrammatic form, the reactions may be complex:

FIGURE 2



The impact of unplanned effects may be beneficial or detrimental. Periodic evaluations during the life of a project provide an opportunity for identifying unexpected factors and taking them into account before a project or its environment, either physical or societal, becomes seriously distorted.

6. Prepare an Agenda for Evaluation Review

The final task for the evaluation team is to reach agreement on the topics which ought to be considered at the Evaluation Review session of B/G and AID senior managers. These officers should not be expected to go through all the details or repeat all the steps described above. They should, however, be briefed on the status of the project and the nature of the various evaluative findings. This will not only assure that management is fully informed, but give them an opportunity to raise questions or make suggestions on aspects other than the issues selected by the staff. For those issues requiring policy guidance and decisions, staff should prepare recommendations or at least outline possible alternatives to facilitate the discussion.

APPENDIX 12C

ADAPTATION OF EVALUATION PROCEDURES FOR PARTICULAR TYPES OF PROJECTS

1. Summary

Experiences over the past several years have demonstrated that the evaluation system described in this Chapter is adaptable to a broad spectrum of projects without lessening the value of analysis. The following are a few suggested adjustments for evaluations undertaken in different categories of assistance.

2. Projects Being Funded with Economic Support Funds (ESF) or Related Funding

On occasion these funds may be committed without all of the detailed documentation described in earlier parts of this Handbook. Since evaluation is based on explicitly formulated targets and other elements in the logical framework, it may be necessary to more accurately express these targets during the pre-evaluation analysis. Adjustments in procedures may also be necessary if documentation of project activities is lacking or had been interrupted. Although ESF assistance is often more closely tuned to short-run foreign policy objectives, individual projects financed with such funds are expected to contribute toward development objectives to the extent practicable. Therefore, evaluations should focus on developmental objectives rather than political objectives. If the latter is to be examined, it should be undertaken as a special evaluation.

3. Small Projects

Chapter 4 of the Handbook allows less rigorous documentation for projects whose life-of-project cost is less than $500,000. (The PID and PP can be abbreviated.) Time and money invested in evaluating these smaller projects should be proportionate to the importance of decisions based on the evaluation findings. If the activity was a pilot effort to test the feasibility of a larger, long-term project, then the evaluation would be more extensive and thorough.

4. Housing Investment Guaranties (H/Gs)

Although H/G loans are made by private U.S. lenders and the AID guaranties funded by the B/G, management and evaluation decisions to be made by AID are similar to those for other projects. H/Gs become

projects, rather than nonproject assistance, because AID links the guaranties with efforts to build institutions such as housing ministries or LDC savings and loan associations. H/Gs may be implemented separately or be an element of a Mission project which provides additional AID resources. In either event, the H/G projects must include arrangements for measurement and recordkeeping on the progress toward objectives so that these projects can be evaluated through the standard procedures discussed earlier in this chapter. The evaluation team may have a more difficult job defining progress because of the institution-building nature of these projects.

Special attempts will normally be made to analyze the effects of a H/G project on the target group after the project is executed. This impact analysis requires that target group characteristics be defined:

-- before the project,

-- upon initiation of the project, and

-- at appropriate intervals after initiation.

Such information is necessary to test the success of H/G projects and is useful for improving H/G policy, planning and design of future projects.

5. P.L. 480 Title II

a. This section outlines questions to be answered by evaluations of Title II projects administered by public or private agencies. Special aspects of evaluation for PVO's are discussed below.

b. For nutrition projects which have institutional aspects, the logical framework contain included indicators about the managerial and budgetary ability of the host organization to take over an increasing share of the responsibility for the program and to expand its outreach. As for the nutritional aspect itself, evaluation can generally be confined to an assessment of managerial effectiveness, i.e., if they deliver the right foods in the right amounts to the right people, since previous special evaluations have demonstrated that supplemental feeding programs will have a positive nutritional impact. A direct study of the nutritional impact (height, weight, health) may be undertaken as a check on linkages between outputs and purpose and on accuracy of monitoring reports. Such records may be kept as part of maternal and child health projects.

c. Some Title II projects consist of food-for-work. For those projects designed to create physical resources, such as roads or irrigation works, evaluation should look at whether these resources are

resulting in development, such as improved marketing or increased agricultural production. It should also look at impact on the regular market economy for food and wages. For projects designed primarily to create employment, evaluation should review such questions as the amount of employment created, whether the jobs went to target group, and whether the project had a multiplier effect in stimulating other employment.

All evaluations of P.L. 480 activities should review the degree to which such assistance was coordinated with and reinforced USAID country objectives and what implications such assistance has for recipient country food production and food pricing policies.

CHAPTER 13

PROJECT MODIFICATIONS

CHAPTER 13

PROJECT MODIFICATIONS

13A. Introduction

1. AID Perspective About Changes in Projects.

Earlier chapters of this Handbook describe a system of design, planning and negotiation which is intended to produce clear definitions of project objectives and methods and of the implementation responsibilities of the Borrower/Grantee (B/G) and AID. However, the social, economic and administrative environments within which assistance projects are undertaken are somewhat unpredictable and subject to frequent change. Even in the best-conceived and managed projects, conditions will be encountered which dictate that implementation methods be adjusted. Monitoring or evaluation may also identify new opportunities or constraints germane to project objectives. The feedback of such information allows the refinement or rejection of former assumptions and allows Project Officers and managers to gain insights not possible earlier in the project cycle. Assessments can then be made which support revised resource allocation and utilization decisions. Identifying changed circumstances, assessing their impact on the project and helping the B/G make adjustments in the project to accommodate change are some of the most important responsibilities of the Project Officer and Committee Members.

2. Coverage

This chapter discusses policy and procedures regarding changes and modifications to projects during development and implementation. Since different elements of the project documentation system are discussed in detail in other chapters of this or other Handbooks, only the general documentation framework and modification procedures are discussed herein.

3. Policy on Project Changes and Amendments

AID recognizes that good project design, effective implementation and evaluation go hand-in-hand. As a result, and in recognition of the dynamic nature of the development environment, AID policy supports the adjustment of project designs and implementation methods to maintain their relevance and effectiveness under changing

conditions. Such flexibility is a critical tool for sound project management. This is not to imply that originally agreed-upon project elements and objectives are to be taken lightly or altered without justification and prior approval. This policy intends that approved project designs and implementation plans and methods are to be adhered to unless conditions change to the degree wherein their continued pursuit would not, with all factors and risks considered, result in appropriate use of development resources or the practicable and effective achievement of agreed-upon objectives. When problems are suspected or confirmed, B/G and/or AID Project Committee members should evaluate the condition and, as appropriate, recommend alternative approaches and mechanisms, prepare justifications for the changes and obtain prompt approval to incorporate such changes into the project.

Note: If the existing project design and/or official documentation require changes, AID encourages the making of such changes, when appropriate and justified, at the lowest possible organizational level. Likewise to promote flexibility of actions at lower levels when changes are being effected, detailed specification of requirements and procedures should be minimized in higher order formal documentation (e.g., Project Authorizations and Agreements) unless specification at that level is essential to the success of a project.

13.B. Recognition and Assessment of Change

1. During project identification and development, a great deal of information is assembled and analyzed. An overall assessment of this information is made and a project design produced which incorporates assumptions and decisions made up to that point in time. This design is summarized by AID in the Project Paper (PP) and, as approved, forms the basis of the Project Authorization and negotiations leading to the PROAG. It is certain that some of the original information will become dated during the implementation phase and may, as a result, require reassessment of the project. It is also possible that AID's design assumptions and assessment of facts gathered at the time may be out of step with changed conditions and require adjustment, e.g.:

-- the market prices of agricultural products which are intended project "outputs" may have changed significantly after the project was authorized (changed fact);

-- the market prices for such products existing at the time the project was developed were erroneously judged to be adequate to produce a favorable benefit/cost ratio (changed assessment of a fact); or

— past price stability was erroneously assumed to indicate future stability of product prices (changed assumption).

2. If the foregoing types of changes or similarly significant matters occur in a project, their effect on project design or implementation methods must be assessed. As a result of such an assessment, either project design, implementation methods, or both may have to be modified. Modifications may be relatively insignificant, such as a modest increase in funding allocated for consultant services. At the other end of the scale, the modification found to be necessary may be so far-reaching (e.g., doubling or tripling of the overall level of effort needed and extending the project life by several years) that a rigorous re-analysis of the project would be undertaken to determine whether it can and should be modified or, if not, curtailed or terminated. Considerations as to when and what type of modification would be appropriate, the procedural requirements for making such modifications, and the sources of approval authority therefor are discussed below.

3. This chapter cannot discuss all possible circumstances or types of modifications; however, it does provide a framework within which a Project Officer or Mission could make considered judgments as to when a modification is needed and acceptable courses of action under particular circumstances. Making and/or assisting modifications that will: correct project designs; make implementation more effective, and improve outputs and positive impact are the responsibilities of Project Officers and Mission management. This is consistent with Bureau Assistant Administrators assigned responsibility for directing and/or overseeing the effective and efficient administration of AID assistance.

13C. Types of Project Modifications

1. Normal Administrative Actions which are not considered Project Modifications.

Numerous actions occur during project development, negotiation, or implementation which may be considered "administrative" in nature or which could come under the heading of "implementation options." While these actions may require the issuance or execution of a formal document by an authorized official (i.e., Authorization or Agreement Amendment), or otherwise would be recorded in the official files, they are not considered "modifications." A few brief examples of such actions follow:

13C1

-- Obligation of funds in somewhat different fiscal year segments than the planning figures noted in the Authorization for an incrementally funded project. (AnAuthorization Amendment would not be required but the Advice of Program Change may be necessary. Approval action would be an internal Bureau OYB allocation decision. The execution of a PROAG Amendment would obligate the funds and complete the action.)

-- Mission and B/G make nonsubstantive changes relating to project implementation, e.g., changes within the implementing agency organization, adjustments in project input accounts that don't change overall totals, replacement of service contractors, etc. (If none of these aspects was significantly critical to success in the original project analyses or design, then they can be considered "implementation options" and handled by mutual agreement at the mission level. Such changes would be recorded in memoranda or correspondence. The change may also be reflected in a revision of the project description in the PROAG Annex.)

-- Mission initiates changes to or waivers of Conditions and Covenants that were not required by AID/W or contained in an AID/W signed authorization. Such would be acknowledged in Implementation Letters or, if necessary, an Agreement Amendment.

The basic sense of these "implementation options" is that they are administrative in nature or relate to routine project management decisions which support timely and effective implementation. They are not principally aimed at modifying the substance or objectives of a project. In only a few cases are Principal Officers of field posts (i.e., Mission Directors) or others not delegated the authority to act on such implementation "options." However, if any questions exist, a Project Officer should consult, as appropriate, with the Mission's Legal Advisor, Contract Officer or Controller and/or the Regional Bureau.

2. <u>What is a Substantive Modification?</u>

A "substantive" modification is one which results in a major change in:

-- Elements of project design that are judged <u>critical</u> to project success. These elements could be aspects of feasibility or relate to project objectives (Outputs, Purpose, Goal), participants, methods, funding, beneficiaries, etc.

13C2

-- The project description, timing, financing or essential conditions and covenants cited in the Project Authorization;

-- The project description, financing level, essential conditions and covenants or other significant project-specific terms in the body of the Project Agreement;

-- The overall length of the project.

There is not always a clear separation between "implementation options" and "substantive" design, authorization, or implementation modifications. When to act and what should be done will vary with the circumstances and personnel making the modification assessment. Whether an assessment is precipitated by a changed fact, a changed assessment of a fact or a changed assumption is not determinative. The Mission must carry its analysis far enough to be able to make a judgment as to the type of change needed and what documentation would be modified during the change and a determination as to what AID organizational level has the authority to approve the modification. Since these assessments often include qualitative judgments regarding the local situation, there is no magical index or "go-no-go" decision and documentation matrix offered as an answer to the difference between "implementation options" and "substantive modifications." Use of the following approach should, however, assist the Project Officer and/or Committee members in arriving at the appropriate outcome:

-- Timely recognition and definition of the change (i.e., catch problems while they're still solvable by simpler means);

-- Assessment of the impact of the change on the project;

-- Assessment of the alternatives for dealing with the change;

-- Definition of procedural and documentary elements needed to effect alternatives;

-- Recommendation of the best alternative to the approving office;

-- Preparation and execution of documentation effecting the approved modification.

If uncertainty exists relating to the categorizing of a modification as "substantive," procedures to follow and/or authorities for approving the modification that are not answered herein, a Mission should consult with

its Regional Legal Advisor and/or Regional Bureau. The participation of The Bureau for Program and Policy Coordination (PPC) or other offices in AID/W should only be necessary when policy matters are involved or when approval authorities are reserved for certain officials outside of the Mission, e.g., Administrator or his/her designee. (See PID and PP processing and approval details in Chapters 2 and 5 and the following paragraphs.)

13D. Documentation of Design Modifications

1. Changes at the Project Identification Document (PID) Stage

Modifications after a PID has been submitted, but early in the project development stage, are discussed in Chapter 2. It is appropriate to note, however, that if an assessment of a potential modification might require a substantial commitment of personnel resources or will result in a substantive modification, e.g., a large increase in AID funding, then the Mission or Office should promptly advise its Bureau about the change and, as appropriate, obtain its clearance before proceeding with redesign or modification actions. Such modifications may require preparation and submission to AID/W of revisions to documents previously approved by AID/W, e.g., Initial Environmental Examination.

2. Changes During Project Paper (PP) Development

When substantive departures from the activity described in the PID arise during the latter stages of project design, a Mission or Office should promptly advise its Bureau, obtain clearance for the change and incorporate the modification in the PP. In some instances, a revised PID Facesheet will also have to be submitted.

Non-substantive modifications arising between the PID and PP may be accommodated by explanations in appropriate sections of the PP.

3. Changes Following PP Approval

a. If an approved project is being amended to facilitate attainment of its original objectives, e.g., through more funds, an extension of time, changing AID/W required covenants, a PID or PID amendment is not needed. In these cases, a PP supplement is called for. A Mission should, however, consult by cable with its Regional Bureau as to the extent of the proposed change and its implications early in the modification process, and before the PP supplement is initiated. Depending upon the nature of the proposed change, a Bureau may require the Mission to provide it with descriptive or supporting

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information, for Bureau approval, before the PP supplement is initiated, especially when additional project funding will be required to implement the change(s). If programming or policy issues are involved, the Regional Bureau may also require the Mission to submit the PP supplement to AID/W for review and approval before actions are taken to amend the Project Authorization.

The detail and depth of analysis supporting the PP supplement will be determined by the significance, scope and complexity of the proposed project modification. In many cases, the supplement will be no more than a synopsis of the implementation problem (e.g., the impact of inflation on project costs and project viability) and the proposed solution (e.g., increase in funding and a project life extension). This could serve as well as the essence of any action memorandum accompanying the proposed Authorization Amendment. Missions or Bureaus (depending upon location of amendment approval authority) will review PP supplements as outlined in Chapter 3. PP supplements should include an amended Project Data Sheet, if appropriate. Authority to approve authorizations or amendments is cited hereafter and in Chapter 5.

b. If the foreseen modification(s) will emerge as a second-stage or add-on type project, an abbreviated PID should be submitted to AID/W, preferably in cable form. Following Bureau review of the PID (and assuming approval), as appropriate, a PP supplement or new PP would be developed. It would normally be reviewed by the unit having authorization authority.

c. If the modification would change project elements such that they emerge as essentially a completely restructured project or a new project with different objectives, then a new PID should be prepared and submitted for Bureau review and approval. As with other PIDs, such should be submitted and approval received prior to the expenditure of extensive PP development resources. The new PP would be prepared and reviewed in accordance with procedures outlined in Chapter 3.

4. Project Authorization or Amendment

a. Authorizations or Authorization Amendments may be necessary to support the following changes:

-- Increasing project funding

-- Changing funding appropriation categories

-- Changing the project description

-- Modifying loan repayment terms

-- Amending Source/Origin and Nationality requirements

-- Changing Conditions and Covenants

-- Amending AID contribution period

-- Incorporating waiver approvals.

Authorizations or Authorization Amendments are usually prepared by the Project Officer and Legal Advisor and are submitted for signature, with appropriate clearances including legal, along with other documentation recommending and justifying the approval action. (See Chapter 5 for examples.) Approvals will be based on an Action Memorandum and/or approved PP Supplement. If the PP Supplement is a sizeable document, the Action Memorandum must include a management summary of the modification. Appropriate notification to Congress must be made if the amendment involves changes of the kinds described in Attachment B of Chapter 5. If additional funds are being authorized, a funding allotment must have been given to the authorizing unit prior to execution of the obligating document, e.g., a negotiated and signed Agreement Amendment. This is arranged through normal Bureau OYB allotment procedures. (See Chapter 5 and Appendix 5B).

b. Authority for signing Authorization Amendments depends upon the nature of the amendment proposed and, in some cases, is a function of who signed the original authorization or prior amendments. A review of specific unit Delegation(s) of Authority and consultation with the Legal Advisor before authorization amendments are submitted for signature is required to avoid errors. (The system for approval of authorizations and amendments and authorities therefor is cited in Chapter 5.)

5. Project Agreement (PROAG), Amendments and Implementation Letters

a. Following AID approval of a project modification, either by Action Memorandum, Authorizations or Authorization Amendment, as appropriate (see Chapter 5), the modification can be recognized with the B/G through:

-- joint signature of a PROAG or Agreement Amendment (see details and procedures in Chapter 6) or,

-- if Agreement Amendment is not required, issuance of an Implementation Letter (countersigned by the B/G if confirmation of B/G acceptance and/or commitment to the change considered necessary.)

b. PROAGs, ProAg Amendments and Implementation Letters that interpret elements of the Agreement shall be cleared by the Legal Advisor and/or Bureau GC, as appropriate, prior to execution by the AID official.

c. Modifications in the Amplified Project Description, which is an Annex to the PROAG, may be accomplished by mutual agreement with the B/G and signature by each party's official representative (e.g., per Section 9.3 of the Model Project Loan Agreement and Section 8.3 of the Model Grant PROAG). Cost increases which the B/G undertakes to finance may be acknowledged through revisions in the Financial Plan in this Annex. The formally revised Annex should be transmitted to the B/G under cover of an Implementation Letter.

d. If a revised interpretation or clarification of PROAG terms and conditions will be sufficient to define and record what might otherwise have to be called a modification, then such may be transmitted to the B/G by Implementation Letter.

6. Extension of Terminal Dates

a. Terminal Dates for Meeting Conditions Precedent (TDCP)

Unless otherwise defined by AID/W at time of project approval, such dates may be extended by Missions for a cumulative period of up to one year. (See Regional Bureau Delegations of Authority or other guidance.) Extensions for longer periods must be authorized by the responsible Assistant Administrator. Extensions are recorded and communicated through issuance of Implementation Letters.

b. Terminal Date for Requesting Disbursement Authorizations (TDDA)

Although the Standard PROAG does not provide for a TDDA, the Terminal Date for Requesting Disbursing Authorizations (TDDA) is contained in many current Agreements to provide an additional financial control point during the latter stages of project implementation. Authority for extending the TDDA is vested in the same officials who may extend the PACD (see below). Extensions are recorded and communicated to the B/G by Implementation Letters.

c. Project Assistance Completion Date (PACD)*

The PACD is the date by which the parties "estimate" that all AID-financed goods will have been delivered and services will have been provided. Under Agreement language AID, at its discretion, could decline to finance such inputs if delivered or provided subsequent to the PACD. If AID desires to finance such inputs after the PACD, it may extend it. Relatively short extensions of the PACD (e.g., 30-60 days for processing specific purchase order invoices) can usually be agreed upon informally between the Mission, e.g., by the Controller, and the B/G. If longer extensions of the PACD become necessary, they can be effected by issuance of an Implementation Letter. Principal Officers of Field Missions may approve extensions of the PACD for cumulative period(s) as specified in the delegation of authority to that unit from the cognizant Bureau. Bureau Assistant Administrators may extend the PACD such that the cumulative Life of Project does not exceed a total of ten years from the date of initial project obligation. The Administrator authorizes all extensions in the Life of Project that exceed the cumulative ten-year period.

The PACD should not be specified as the terminal validity date of financial instruments (e.g., Letters of Commitment or Letters of Credit). The validity date of such financial instruments should generally be later than the PACD, since under Section 3.3(c) of the Standard PROAG disbursements can routinely be made within nine months following the PACD.

d. Justification for Extensions

(i) None of the categories of terminal dates mentioned above should be extended without consideration and justification. In each case, the causes of the delays should be ascertained and discussed with the B/G agency involved, so that steps can be taken which are likely to make further extensions unnecessary.

(ii) In cases where long or repeated delays are encountered, the examination of their causes may lead to the consideration of alternatives to an extension of terminal dates. If it is found, for instance, that a Condition Precedent (CP) cannot be met within a reasonable period because it was based on an

* Some existing PROAGs have a Terminal Disbursement Date (TDD). This discussion covers both.

unrealistic assumption (and is therefore unlikely to be met even if the terminal date is extended), then waiver or modification of the CP should be considered which will permit the B/G to meet it. Similarly, extension of a TDDA or PACD may not, by itself, address an underlying procurement or contracting problem; a successful attempt to solve that problem may obviate the need for an extension, but, in any event, should be a companion action to an extension of the terminal date.

(iii) Finally, there are cases where AID should seriously consider refusing requests for the extension of terminal dates. Such cases would include those where the extension of a TDDA or PACD would permit the financing by AID of a relatively insignificant project cost but at the same time have substantial disadvantages for AID in the form, e.g., of relatively high incremental administrative costs or problems in the area of public or Congressional relations. If such matters are relevant, they should be considered and discussed in the Action Memorandum submitted to the AID official who is to review the request for extension.

7. Increases of Incremental Funding to be Obligated

If the amount of incremental funding to be obligated in any one year is higher than shown in the Congressional Presentation for that fiscal year, or would result in an increase of previously advised total project cost, an "Advice of Program Change" has to be sent to the Congress. (See Appendix 5B.) Incremental increases are usually recognized by Agreement Amendments (Appendix 6H) and must be preceded by an allotment of funds by the Bureau. (See Chapter 6.)

8. Decreases in Life of Project Funding

Whenever it is certain that the funds authorized and obligated for the life of a project exceed the amount actually required, steps should be taken to deobligate the excess amount. (See Section 14D2 and Handbook 19 for additional details.) In doing so, however, care should be taken that a reserve for contingencies, appropriate under the circumstances, is retained to avoid the danger of an eventual shortfall of funds. Such action should be taken only after consultation with the Implementation Agency and other B/G agencies involved (e.g., the Ministry of Finance). The deobligation may be effected following an Agreement Amendment or may be unilaterally

taken by AID in accordance with the Agreement after a specified point in the project. (See Appendix 6A, Standard PROAG, Section 3.3, PACD.) A deobligation notice should be formally communicated to the B/G in an Implementation Letter.

9. Other Modifications

The documentation required to effect other kinds of modifications within a project depends upon the nature of the change, the documentation and way in which the item to be modified was originally recorded. For example, several aspects of a PROAG are qualified and may be changed (usually by Implementation Letter) because they had built in flexibility, e.g., "...unless AID otherwise agrees in writing...." Other features may likewise be deleted or modified following issuance of waivers or comparable administrative determinations by the appropriate AID official. Such options are too numerous to discuss herein, so Project Officers and Committee Members are simply encouraged to look at every condition which is negatively affecting implementation (or potentially a positive opportunity) and to explore all options for responding to same with appropriate personnel within the Mission or Bureau. In this sense, if a modification or action really makes sense for a project and development, there probably isn't a reason why it can't be done within the AID system. The key for project personnel is to keep probing the AID system during their modification assessment (see Section 13C2) until a rationale, procedure and approval accommodate the solution.

CHAPTER 14

PROJECT COMPLETION AND POST PROJECT CONSIDERATIONS

CHAPTER 14

PROJECT COMPLETION AND POST PROJECT CONSIDERATIONS

14A What Is Project Completion?

1. Definition

The Project Assistance Completion Date (PACD) is, by definition, the point at which AID-financed physical inputs (goods and services) have been delivered or provided. That point generally coincides with the end of the "input" phase, but is rarely the "end of the project" in any sense of the term because AID will, in the majority of cases, still be responsible for support and monitoring actions and residual disbursements. Beyond AID's PACD, the Borrower/Grantee (B/G) or other donors amd participants may still be providing goods or services and pursuing the completion of implementation tasks. For many projects, they only begin their real, productive life when outputs are achieved and utilized whithin an "operations" phase which thereafter generates project benefits. A project can, therefore, only be considered complete when it is successfully generating a stream of benefits and helping the intended beneficiaries in the manner and at the rate envisioned in the initial project or, if modified, final project design.

2. Completion and Different Kinds of Projects

a. Minimal Operations - Some AID-financed activities meet their objectives, i.e., achieving the Purpose and End of Project Status (EOPS) with little involvement after inputs are successfully delivered. These activities usually have relatively small organizational development and training components and the generation of benefits demands minimal B/G participation after outputs are produced, e.g., a major bridge project executed on a "turn-key" basis by foreign contractors. Once the bridge is completed, the B/G agency will have some maintenance (cleaning, painting, repairing) and operating (river and bridge traffic management, preventing overloaded vehicles) responsibilities and these activities will require some recurrent cost financing. The operating activities are important, but they are in relation to the original investment, much smaller and therefore more manageable. The problem of river crossing is resolved for the farmers and transporters once the bridge is opened, and benefits will hopefully accrue to producers, handlers and consumers. Notwithstanding, completion of the bridge and free movement over it does not guarantee the generation and incidence of benefits, so attention to or management of other elements (e.g., transport costs, market prices) may then be necessary to make the completed bridge project a lasting and successful development intervention for all intended beneficiaries.

b. Changed Operations - A number of development activities have physical inputs (e.g., school buildings, health centers and teaching materials, medical supplies) which are substantial and necessary to support project outputs. These potential operating units will probably be created within an organization which already "operates" or functions to some extent, i.e., the Health Ministry has people, some budget resources, procedures, etc. However, the output of improved health services may require the upgrading of physical facilities and improved or changed operations within the Ministry. These improvements or changes are often multi-faceted and inter-dependent (e.g., new Ministry policies, procedures and authorities, training personnel, budget/salary level increases, improved logistics support and maintenance for rural centers, education of villagers). Thus, while a great deal of money and energy will be expended building and stocking the physical facilities (bricks and mortar inputs), without organizational improvements and changed operations, within the Ministry, the project will not produce outputs (properly functioning health units) or achieve its purpose (delivery of improved health services/improved village health). These projects are difficult to successfully complete because "operators" (regular Ministry officials) may not be experienced "implementors" (construction managers) and the sometimes subtle but critical changes at the benefit production level (attitudes/inter-actions between supervisors, health workers and villagers) may not receive adequate attention during the rush to finish the physical (bricks and mortar) side of the project. The production and ultimate delivery of benefits (and successful project completion) therefore suffer because the "changed operations" aspect remained incomplete.

c. Major Operations - AID finances a number of activities which result in the creation of a totally new organization (e.g., Ministry, farmers' cooperative) and/or a productive enterprise (e.g., privately or publicly owned fertilizer plant, thermo-electric power plant). Such organizations and enterprises may be the exclusive source of the commodity or service produced; therefore their continued and successful operation (physical and economic) assumes a higher level of importance in the local development scene. Their successful "operation", on a daily or continuing basis, is the project focus, far overshadowing internal subactivities leading up to the "operatng" phase. This is not to imply that construction, training, organizational development, etc. are not important within such projects. They are just as critical as the maintenance or traffic officer's salary in the bridge example (para 2.a. above) and, therefore, cannot be left out or done poorly. The difference is the focus during project implementation and the need for intensive supervision and support once basic physical facilities and organizational development largely are accomplished. Successful "operating" or recurrent cost financing, continuing B/G management involvement and religious adherence to supply and maintenance requirements are typical ingredients in "successful project operation" and resultantly, sustained benefit generation, which, in this undertaking, translates into "project completion.

14B. Transition to Project Operations

Guidance has so far covered design, approval, obligation and implementation aspects up through, in general, the physical installation. As discussed above, many projects directly produce outputs and benefits following the delivery of inputs. Other projects don't achieve outputs, let alone generate benefits, until physical inputs are combined with people to form an operating entity (e.g., health center, rural school, fertilizer factory, etc.). These types of projects must move from a materials delivery/construction mode (Inputs) into a successful start-up and operating mode (Outputs) if purpose is to be achieved and generated and delivered on a sustained basis. Many implementation agencies are unable to manage this transition effectively because project personnel are engrossed in the details of building construction, etc. As a result, the operating entity may be substantially delayed or may never get fully established. This is more often the case when construction delays and cost overruns eat up budget contingencies; then activities necessary to get the operating entity started suffer from a lack of funds.

Managing the transition is often further complicated because B/G and AID personnel may have changed between the two phases and B/G personnel responsible for "operations" often come from a different organizational unit. The transition from implementation into operations requires a definite change in management focus and differing B/G and AID personnel skills to make it happen efficiently. Shortcomings in establishing full operations on time may mean that achievement of purpose will be prevented and socio-economic benefits reduced.

14C. B/G Responsibilities

Besides taking actions such as suggested in Appendix 9B, paragraph 7, the B/G usually has a number of continuing responsibilities within the project after the AID financed goods and services have been provided. The Project Officer must be aware of the specific actions required and include their review in latter stage monitoring functions. A review of the PROAG, Agreement Annex, Implementation Letters and approved plans and budgets will provide an appropriate summary of responsibilities for a specific project. A brief listing of typical Borrrower/Grantee responsibilities is provided below.

-- Continuing coordination and/or direction of project donors and participants to pursue the timely and effective completion of project activities.

-- Completion of inputs, financed or provided by the B/G, other donors or participants, that are not in place by the PACD.

-- Organization for and the efficient management of project resources for the operational phase of the project, if applicable, including the timely provision of adequate recurrent cost financing.

-- Monitoring a completed activity to ensure that outputs are realized and benefits flowing to the intended parties, including recording same and reporting, as appropriate to AID.

-- Continue actions necessary to satisfy or remain in compliance with the terms, conditions and covenants of the PROAG and Implementation Letters related thereto, including the preparation and submission of required reports.

-- Participation, as required, in the conduct of residual project evaluation activities and/or the taking of agreed upon corrective actions.

-- In the case of loans, commencement of repayment actions in accordance with the loan amortization schedule.

14D. AID Responsibilities

As a project moves into its operations and completion phases, the Project Officer and other Committee Members will continue to perform a number of the support and monitoring duties discussed in earlier chapters, e.g., site visits, approvals of Borrrower/Grantee actions, coordination with other donors, reporting, effecting project changes, etc. These functions will be performed in much the same manner as before, but the focus will be more on how the project is doing rather than how it is being implemented. Even though a Project Committee's support and monitoring functions may be reduced in number when AID financed inputs are delivered, AID's involvement in and responsibility towards successful project completion should in no way be lessened. AID's emphasis should shift to helping complete the project and making it work. Managing all of the inputs to produce outputs and then moving into the successful generation and delivery of benefits may be the B/G agency's most marginal capability, especially when a new organizational undertaking is involved. Therefore, the Project Officer and other Committee Members will need to intensify their focus on B/G actions to move the project forward into the "operations" and benefit generation phases, while simultaneously "wrapping up" AID monitoring and administrative activities. Considerable investments of personnel and

money would have been made up to this point in the project assistance cycle, and, in most cases, only a little more support and encouragement are all that are needed to help the B/G make the project a permanent success. The following is a brief discussion of some specific responsibilities and duties in the latter stages of project completion.

1. Residual Disbursement Actions

Except in the case of full payments made by AID or U.S. banks upon presentation of documents when the goods are shipped or delivered, some part of the payments due contractors or suppliers is usually paid some time, often many months, after the contractor has done everything it was contractually obligated to do.

a. This delayed disbursement is necessary because many contracts provide for the "retention" by the Contracting Agency of a percentage (typically 5% or 10%) of the amount payable during the life of the contract until a specified event occurs. That "event" may be simply lapse of specified time, e.g., 12 months during which a piece of equipment has been performing as specified in the contract, or a positive act, e.g., inspection and final acceptance, taken by the consulting engineer, which would trigger payment of the retained amount. Often that act is reflected in a performance certificate issued to the supplier by the Contracting Agency or consultant attesting to the successful completion of specified equipment tests, performed immediately after installation or after a certain period of operation at specification levels.

b. In other cases, contractors have to submit comprehensive "final billings" which require some time to prepare because all reimbursable items have to be collected, often from geographically widely separated sites, then consolidated, earlier payments deducted and, finally, the residual amounts computed.

c. In lieu of payment "retentions", some contracts for equipment or services require the contractor to provide a performance bond or financial guaranty to cover possible costs of revisions or repairs after completion of a contract. While AID is seldom the recipient of such instruments and their execution would not likely involve AID disbursements, the Project Officer should be aware of their terms and whereabouts so as to monitor: (i) their return to suppliers upon expiration or (ii) conversion by the B/G if performance problems arise which cannot otherwise be resolved with the supplier.

d. In order to permit such "post-contract" events to take place ("post"-contract in the sense that the substance of the work has already been completed) and to enable AID to make the required disbursements even though the PACD has lapsed, Section 3.3(c) of the Standard PROAG establishes a nine month period beyond the PACD as the period during

which final disbursements can routinely be made. If necessary to accommodate payments which are contractually fixed at a later time, or for compelling reasons, that nine month period can be extended by the Mission or the Regional Bureau. (See chapter 13.) Letters of Commitment and/or Letters of Credit may also have to be extended to accommodate the delayed payment.

2. Preparations for Financial Close-out

Not later than the PACD, and preferably well before that date, all actions necessary to financially "close-out" a project should be considered, discussed with the Implementing Agency and, when indicated, with participating contractor(s). A checklist (the functional equivalent of a "punch list" used towards the end of construction contracts) of actions should be prepared and circulated to appropriate parties. Typical close-out actions are listed below, although not all apply to all projects and, conversely, other items may have to be added.

a. Review all active AID-financed contracts to ascertain what, if any, amounts remain to be billed and paid; to discover any disputes that have arisen or are likely to arise and to expedite their settlement to the extent possible;

b. Review commitments and disbursements under individual commitment documents (L/Coms, DRA's, Letters of Credit, etc.). The purpose of the review is to ascertain whether all disbursements can be made under existing commitment documents and, where necessary, to make appropriate alternative arrangements to ensure that all disbursements will be made during a reasonable period following the PACD;

c. Review disbursements to be made by the Borrrower/Gantee to determine that adequate funds to complete the Project will be available form the B/G within the frame work of the Agreement and the project financial plan, and to begin working towards the resolution of any problems encountered;

d. Review all AID financing accounts and begin discussions with the B/G on deobligation of funds not required to complete the project, if any;

e. Review the adequacy of the arrangements, including funding, made to the operation of the project (if it has an "operations phase") and agree with the Implementing Agency (or operating agency, if a different entity) on any additional steps necessary to assure availability of recurrent cost financing.

f. Deobligate any undisbursed AID funds that were not needed for the project. This step should be taken after all disbursements have been completed. It requires careful and thorough reconciliation of

accounts between the Project Officer, Mission Controller, and FM in Washington, and making the necessary accounting entries. Final deobligation action requires close coordination between the Mission, AID/W and the B/G.

3. Final Monitoring Activities and the Project Assistance Completion Report

a. A few monitoring activities discussed in Chapter 11 will continue on into the final stages of project completion. A few of the more important activities are listed below:

-- Periodic site visits to observe project operations, focusing on the utilization of inputs, achievement of output targets and generation and delivery of benefits to the intended groups(s).

-- Preparation or assembly of reports on physical completion of the project, including available evidence of benefit incidence.

-- Review B/G arrangements to ensure continuing viability of the project, e.g., organizational or personnnel incentives to retain and utilize trained participants.

-- Check on B/G compliance with or mechanisms for complying with remaining conditions and covenants in the Project agreement; including reporting thereon, as necessary.

-- Clean up and organization of official project files, separating out those for use in continued monitoring and final evaluation and those which should be retired to storage.

-- Preparation of the Project Assistance Completion Report (see Appendix 14A for details).

b. The "Project Assistance Completion Report" should be prepared within six months after the PACD. An important element of the Completion Report will be its recommendations for continuing AID support and monitoring actions. If not already scheduled, the Report will also outline any arrangements for and the expected timing of a final project evaluation. Depending on the type of project and its characteristics in terms of innovations and size of AID assistance, monitoring may continue for a few months (e.g., until all non-AID inputs have been made) or several years (e.g., if operations are to be reported and analysed or if financial covenants have to be monitored). The type and extent of

continued post-project monitoring for any given project should be reviewed periodically, but not less frequently than every two years. "Post-project" monitoring should be limited to those projects in which AID has a specific longer term interest so that the attention of Project Officers can, by and large, be applied to projects in the development, implementation and transition to operations phases.

14E. Post Project Considerations

Depending upon the particular project and the AID development strategy in a country, a number of considerations might arise during the latter stages of project implementation and operations because of inter-dependencies between programming, design, implementation and evaluation. While complete assessments and answers may not be forthcoming unless a terminal or impact-type evaluation is undertaken, circumstances may dictate that some decisions or actions to be taken on the basis of preliminary information. This is especially relevant where programming decisions are involved because of their lead times. Such post-project considerations should, therefore, be consciously raised as the activity moves into its final steps.

Typical considerations might be:

-- Where did the project get to in terms of its implementation and operations targets?

-- What impact has the project had or is expected to have? How does this compare with intended impact? (See the AID Evaluation Handbok and Chapter 12 for additional information.)

-- Is the activity viable in light of ongoing development priorities and is it ready to be expanded, replicated or redirected? Should AID or, perhaps, another donor be encouraged to participate in its expansion, replication or redirection?

-- What new development opportunities did the project create and what might, if acted upon, accelerate the production and/or realization of benefits or be the next step in the development sequence?

While the foregoing questions bridge over into programming and evaluation issues, the answers may be more project specific and reflect back to adjustments which might be made in the given activity before it is actually completed. Such considerations may generate a decision to, e.g., extend the project temporarily to sustain its momentum because the next phase or project would benefit greatly therefrom. Project Officers and Missions are therefore strongly urged to frequently examine ongoing projects and those nearing completion for:

-- lessons learned which should be fed back into Mission design and implementation activities;

-- because of possible post-project actions or situations, ways in which the immediate project can be made more productive;

-- the country programming implications thereof.

In this fashion, the project assistance effort will have closed back on itself and enable direct application of program improvements.

14F. Completion/Terminal Evaluation

At an appropriate point in the project sequence, the Project Officer, assisted by the Mission Evaluation Officer and other Mission staff, may conduct a Completion/Terminal Evaluation. This evaluation will be carried out in accordance with the Mission Evaluation Plan and procedures outlined in the AID Evaluation Handbook produced by the PPC, Office of Evaluation. The specifics to be covered for each project will depend upon the extent of prior evaluations, the status of the project and the kinds of issues or questions the Mission wants to investigate during the evaluation. If conditions warrant, the final evaluation may be a combination of completion and impact type evaluations. Project Officers should consult Chapter 12, Appendix 14B and the Evaluation Handbook prior to proceeding. If additional information is needed, he/she should contact Bureau evaluation personnel and/or the PPC, Office of Evaluation.

Appendix A - Guidelines for Preparing the Project Assistance Completion Report

Appendix B - Guidelines for Completion/Terminal Evaluations

(Reserved)

APPENDIX 14A

Guidance for Preparing the Project Assistance Completion Report

Within six months after expiration of the PACD (including any informal extension thereof), the Project Officer will prepare a Project Assistance Completion Report. The principal focus of the report will be on:

-- Where the project is at that point, including the status of completion of various project elements (e.g., procurement, construction, technical assistance, training);

-- A summary of contributions made by the B/G, donors and participants (i.e., planned versus actual Inputs);

-- A brief review of project accomplishments in light of: conditions at the outset (initially planned Outputs), the expectations of project design and changes in the project environment and/or design during implementation (including a comparison of revised outputs and actual Outputs);

-- If possible at that point, an assessment of the extent to which the project has resolved or is resolving the original problem (i.e., progress towards achievement of the initial and, if appropriate, the revised purpose);

-- Recommendations for final adjustments in project design, the appropriateness of remaining conditions and covenants and B/G reporting requirements;

-- Definition of continuing and/or post-project AID monitoring responsibilities, including the timing and resources involved;

-- A review of data collection results and evaluations remaining to be undertaken;

-- A summary of lessons learned from the project that might be relevant to programming, design and implementation of other activities.

This report shall be reviewed by appropriate Mission or Office managers and decisions taken on recommendations made. The report and record of decisions shall be retained in the official project files. Distribution of the report beyond the Mission or Office shall be as required by the responsible Bureau. However, a copy of the approved Project Assistance Completion Report should be sent to the Bureau for Science and Technology, Office of Development Information and Utilization (S&T/DIU) by the Mission or Bureau in AID/W.

APPENDIX 14B

GUIDELINES FOR COMPLETION/TERMINAL EVALUATIONS

(Reserved)

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INDEX TO THIS HANDBOOK

This index is derived from the Master Index to the AID Handbook series issued under TM HI:2.

The underlying approach to the Master Index is one of unity, with the series of AID Handbooks considered as a single entity in which topics may appear in one, or more than one, of the component volumes.

Each entry in the Master Index that includes a reference to this Handbook is reproduced here in its entirety, thus providing both a guide to this Handbook and useful references to other Handbooks.

The formats for location citations are intended to match their appearance on the Handbook pages. Beyond the standardized Handbook number with its following colon, the citations used in the index reflect the different formats used in the individual Handbooks themselves.

UNDERSTANDING THE CITATIONS

The standard codes and messages that appear throughout the index, and their exceptions, are defined in this section. It is recommended that all users read this section before using the index.

LOCATION CITATIONS

The location citations are grouped in the following pattern:

Handbook number, colon, Chapter number, Paragraph letter, and further breakdown where needed.

The abbreviations such as App. for Appendix; Att. for Attachment; and Sup. for Supplement are also included in the citations wherever necessary.

Special cases and cross reference messages are described on the following page.

An example of the format used is as follows:

AID Financed Export Opportunities 1B:23A2a(3); 15:10C1a(1)

where the term "AID Financed Export Opportunities" is located in Handbook No. 1B, Chapter 23, Section A2a(3); and Handbook 15, Chapter 10, Section C1a(1).

SPECIAL CASES

Although the majority of the location citations follow the pattern described previously, there are these exceptions:

- In some of the Handbooks, a majority of the text is reprinted from the Foreign Affairs Manual (FAM). All FAM citations are marked by a '#' sign before the section number.

- A major portion of Handbook 14 is composed of the Federal Acquisition Regulation (FAR). All citations to this publication are cited as 14:FAR(section number).

- Three Handbook supplements that are basically separate volumes are cited as, 1B: (Procurement Policy), 3A: and 3B: (Project Managers Guidebook).

- In Handbooks which contain both Parts as well as Chapters, the Roman numeral Part number is separated from the Arabic Chapter number by a dash (-). For example: 21:I-2A8, a citation to Chapter 2 of Part I of Handbook 21.

CROSS REFERENCES

These references provide direction for selection of index terms:-

A '<u>see</u>' reference points from an unused term to the one that is used.

'x' is the reverse of <u>see</u> (do not bother to look) and provides a guide to terms that are <u>not</u> used in the index.

'<u>see also</u>' points to terms that are closely related.

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