

A participatory approach to identifying and preparing small scale rural investments

PREPARING AND USING PROJECT PROFILES



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TABLE OF CONTENTS

I. INTRODUCTION TO RURALINVEST	2
A. The Purpose of RuralInvest	2
B. The Special Nature of Rural Investments	3
C. Type and Scale of Projects Appropriate for RuralInvest	3
D. The RuralInvest Modules	4
E. RuralInvest Users	6
<hr/>	
II. THE ROLE AND APPLICATION OF INVESTMENT PROJECT PROFILES	10
A. Introduction	10
B. Defining a Project	10
C. Principle Stages in the Preparation and Use of Project Profiles	11
<hr/>	
III. THE PROJECT PROFILE	14
A. What is a Project Profile?	14
B. What is the Purpose of the Profile?	14
C. What is the Difference between a Profile and a Detailed Project Design?	14
D. The Principal Elements of a Project Profile	15
<hr/>	
IV. KEY ASPECTS TO CONSIDER IN PREPARING A PROJECT PROFILE	18
A. Introduction	18
B. The Importance of Demand	18
C. Supply as an Influencing Factor	19
D. Describing Project Operations	19
E. Categorizing Costs	20
F. Environmental Sustainability	21
<hr/>	
V. COMPLETING AND INTERPRETING THE PROFILE	24
A. Introduction	24
B. Background Information	24
C. The Investment	24
D. Operating Costs and Income per Activity	25
E. General and Maintenance Costs	26
F. Preliminary Estimate of Viability (income generating projects only)	27
G. Preliminary Beneficiary Estimates (non income generating projects only)	28
<hr/>	
VI. NEXT STEPS	32
<hr/>	
ANNEX 1: Project Profile Formats	34



Chapter I

INTRODUCTION TO RURALINVEST



I INTRODUCTION TO RURALINVEST*

The following document forms part of a “toolkit” comprising manuals, training materials and computer software, that together provide a basis for a relatively simple, yet reliable, approach to the identification, formulation, implementation and evaluation of small-scale community or family investment projects in rural areas.

RuralInvest was originally developed by staff of the Investment Centre of the United Nations Food and Agriculture Organization (FAO) in response to requests for a readily usable approach to the identification and preparation of investments much smaller than those traditionally considered in published guidelines¹.

FAO, in cooperation with the multi-agency “Regional Unit for Technical Assistance” (RUTA) in Central America, translated these initial experiences into a general methodology and toolkit, which have now been tested in a number of countries with considerable success. As the number of users has grown, it has been possible to improve and expand the different elements of the RuralInvest toolkit, as well as offer the package in a number of other languages.

A. The Purpose of RuralInvest

In recent decades many governments have begun to encourage local communities to assume a more active role in decisions concerning their own development. Often referred to as Community Driven Development (CDD), this has included such measures as the transfer of financial resources to municipalities, the decentralization of public agencies, and the creation of local investment funds (sometimes known as Demand-Driven Rural Investment Funds or DRIFs). Using these approaches governments and international financial agencies have created new possibilities for people to effectively participate in, and influence, the decisions that contribute to the socio-economic development of their community, municipality or district.

Selection of investments at local level is not without its problems, however. It is not always easy to determine which investments will yield the best results. It may be that a bridge would have greater impact on a community than a new well, or that a

dairy processing plant would make a greater contribution than an irrigation system, but how to decide between them? Furthermore, not all investments are sustainable. An investment that initially generates strongly positive results for the community may turn out to be simply too expensive to keep running (e.g. a local hospital), or to result in the destruction of natural resources that cannot readily be replaced (e.g. a sawmill).

Over the course of many years, most developing countries have built up a national capacity to formulate and analyse investment proposals, utilizing a small cadre of internationally trained staff located in those ministries and agencies responsible for economic and social planning. Using international formulation and appraisal procedures, and often supported by specialists consultants from international financing agencies, these highly trained staff have traditionally focused on preparing key multi-million dollar investments. The feasibility study for a new hydroelectric dam, for example, could take years and involve a multi-volume report costing millions of dollars.

However, these staff typically have little experience in the analysis of smaller scale projects, where such in-depth analysis is clearly not justified. Furthermore, even if these experts adapted their procedures to the study of small projects, there would simply be too few experts to support the dozens of decentralized projects, the scores of autonomous municipalities, or the hundreds of community groups that are now seeking to identify and formulate their own projects. What is needed is a different approach; one that can be used to formulate and approve small-scale projects using only local technicians and resources.

In general, three possible procedures can be used to select and approve projects prepared at local level. These are:

1. Applying standard procedures and exclusions to all projects

The first option is for the funding agency to establish standard procedures and exclusions, and accept all projects that meet these criteria. These might include:

- ▶ Requiring the signature (or mark) of a majority of the community or group applying
- ▶ Requiring the approval of the local Mayor or Council
- ▶ Excluding certain kinds of investments (for example, no projects that might damage the

* This document was prepared by Aidan Gulliver, Dino Francescutti and Katia Medeiros of the Investment Centre, FAO, Rome, with contributions from many other FAO and RUTA staff members.

1. “Guidelines for the Design of Agricultural Investment Projects”, Technical Paper No. 7, Investment Centre, FAO, Rome, 1992. This is a good example of a methods and procedural manual, designed for the preparation and evaluation of large-scale projects.

environment or religious structures will be allowed);

- ▶ Excluding projects with investment costs which exceed a per capita limit (that is the cost per beneficiary).

This option offers the communities or applicant groups a high degree of autonomy in choosing their investments, but the absence of any evaluation mechanism creates a high risk of financing projects that are either infeasible or unsustainable.

2. Using predefined investment models for each expected type of project

In this second option, a detailed study is carried out for a number of “model investments”, each representative of the type of proposal that are expected to be received from participating groups, communities or municipalities. All proposals must then use these models as the basis for their submissions. This method has the advantage of ensuring generally well-designed projects (because experts can be called in to design each model) –especially for infrastructure projects that can be replicated from one place to another (e.g. a health clinic).

However, predefined projects do not easily allow for changes to the basic designs and thus risk funding investments unsuited to local conditions (e.g. an irrigation system). They also tend to limit the degree of local involvement and ownership, as designs are pulled “off-the-shelf”, with little role for the local community. The need to follow standard designs and ensure identical construction also tends to favour the use of professional contractors rather than local labour, limiting local involvement even further. Finally, the use of model investments generally excludes the possibility of innovative projects for which no models exist. They are thus inappropriate when financing a wide variety of rural investments.

3. Local-level project identification, design and analysis

The design and evaluation of projects at local level offers significant advantages, including: (a) the design of projects that arise from, and respond to, local needs, priorities and circumstances; (b) the development of a local capacity not only to formulate and evaluate investment projects, but also to manage their own development process in a wider sense; and (c) the creation of a real commitment to, and ownership of, the proposals on the part of the applicants, as a result of their participation in the formulation process.

However, this approach undoubtedly requires a greater level of effort and cost than the others, both

in the initial training of local technicians and in their subsequent work with applicants. In most cases local technicians will also need to be supported by subject-matter specialists (e.g. irrigation engineers, architects etc.) and be adequately supervised, to ensure the quality and correctness of the designs developed. A number of attempts to use this approach in the past have proven to be unsuccessful, largely due to the inability of local staff to effectively master the complex investment formulation tools developed for use in multi-million dollar projects.

To avoid these problems, the project design and evaluation process must be brought within the reach of local technicians and the communities they serve. RuralInvest provides the tools to achieve this objective, using a number of separate but interlinked modules which simplify the tasks of priority setting, project identification, detailed project design and analysis, and finally monitoring and evaluation of the implementation process.

B. The Special Nature of Rural Investments

The seasonal nature of many rural activities. Unlike urban investments, many rural projects must take into account the availability of resources (land, labour, capital) in different months of the year and relate them to differing production patterns (e.g. crop and livestock activities). In addition, fixed costs may exist which are spread throughout the year, including during periods when no productive activity is underway.

The heavy dependence on the use of natural resources. When evaluating possible rural investments, environmental and natural resource sustainability are often critical factors for long-term success.

The dispersion of human and economic activities. Rural populations tend to be spread out, limiting access to infrastructure (roads, electricity) and services (schools, health clinics). Equally, input supplies, markets and other productive elements are also dispersed. This means that greater attention needs to be paid to such aspects as availability of inputs and the cost of delivering the finished product to the buyer.

C. Type and Scale of Projects Appropriate for RuralInvest

RuralInvest distinguishes between two broad types of investment projects: those designed to generate income, that is, *for profit*, and projects whose principal purpose is not profit related.

The category of **income-generating projects** covers a wide range of possible activities: agricultural production, aquaculture, rural shops, irrigation, agroindustry, handicrafts, tourism, transport, the fabrication of simple machinery and spare parts, and marketing services. A project may, in fact, require investment in more than one of these areas, and will frequently involve more than one type of productive activity from the same investment (e.g. production of different crops as a result of investment in irrigation)

The category of **non-income generating projects** also includes a broad range of activities and can be divided into three distinct sub-groups:

- ▶ *Production support*: Including access roads and bridges, electrification and communications, as well as primary irrigation infrastructure;
- ▶ *Social projects*: Health and education services, provision of drinking water and sewage disposal, and support for community organization;
- ▶ *Environmental projects*: Watershed and slope protection, reforestation and soil conservation.

It is important to note that projects in the non-income generating category may often include a user fee or charge designed to recover some portion of the operating costs. However, unlike the “for-profit” projects, this income never provides the justification for the project, but merely contributes to its sustainability.

Although the participatory methodology stressed throughout the RuralInvest approach renders it particularly appropriate for use with groups and communities, there is no reason at all why individuals or families cannot use it. However, such personal applications generally omit the detailed needs identification and priority setting that is central to the first RuralInvest module, and commence directly with the project profile.

RuralInvest is best used for small and medium scale projects that run from perhaps US\$5,000 to somewhere not greatly exceeding US\$250,000, always depending greatly on the complexity of the project design. Micro-investments (very simple projects with an investment below US\$5,000) often may not require further preparation beyond this stage, as financing can be decided on the basis of the 4-page profile.

Conversely, above a level in the region of US\$250,000 – depending upon the complexity of the project as much as upon the value of the investment – it may be wiser to supplement, or even replace, the use of RuralInvest with a specialized project formulation team. This is important because RuralInvest is designed to be used largely by general technical staff, while above

a certain investment cost it becomes more effective to contract specialists in a number of fields.

D. The RuralInvest Modules

As mentioned above, RuralInvest covers a series of phases or modules. The following is a description of the principal elements of each of them.

Module 1 – Assessing Local Investment Needs and Priorities

The first module of RuralInvest is primarily community focused, particularly through its support for the creation of a local development plan from which the specific investment projects will derive. Communities and groups which already have undertaken this type of process, or individual applicants who are generally much clearer on their priorities, may wish to pass directly to Module 2 where the project profiles are developed.

RuralInvest provides detailed guidelines in this phase to help in the following tasks:

- ▶ Define the current situation of the group or community, taking into account a range of aspects, including physical (the location of the community, availability of land and water, types of soils, slopes, etc.) environmental (forests, fishery, rainfall distribution), and socio-economic and cultural (availability of markets, current earnings of members of the community, migration, group solidarity, etc.);
- ▶ Use this definition of the current situation to reach agreement on key problems and potentials faced by the community or group;
- ▶ Develop a local development plan that defines priorities for action according to the needs of the applicants;
- ▶ Identify one or more possible broad investments that would contribute to carrying out and achieving this plan.

For communities, this first phase almost always requires the support of a community worker or rural technician, trained in the use of RuralInvest and with experience in participatory planning. The technician will support and guide the applicants in using the tools and guidelines provided by RuralInvest. Ideally, she or he will already know the community, through residence or previous work in the area, but in many cases technicians will be assigned to work with the applicants by the supporting agency as the result of a specific request from the community.

Where there has been no prior contact between the technician and the applicants, and a local

development plan or its equivalent has never been prepared, the diagnosis and identification phase may require the technician to make a series of visits over a period of as long as three to four months, depending on the degree of organization of the group, the complexity of the constraints and opportunities faced, and the accessibility of the community.

Where the community has previous experience in identifying local requirements and priorities, the process will be much more rapid, and the phase can often be completed after no more than a few visits.

In this first phase there is generally no need for specialized technical staff to participate, as the priorities and resulting development plan should largely be the work of the applicants themselves.

Module 2 – Identifying and Preparing Project Profiles

The core of Module 2 is the preparation of a project profile for each priority investment proposal. These profiles provide enough information about the investment to allow both the applicant(s) and the eventual financing source to see which ideas have potential, and are thus worth the further effort and resources required to develop them in detail.

Most individual applicants will seek to by-pass the earlier community diagnosis and planning activities, which are often of little relevance for those who already have a clear idea of what investment they seek to make. Even whole communities which have previously undertaken some form of community development planning may wish to pass directly to profile preparation, as long as there is already a broad community agreement on development needs and priorities.

Few, if any applicants, however, should be permitted to jump directly to Module 3 of RurallInvest, as the resources required for detailed project development can not easily be justified unless a profile has already been approved. In addition, the profiles also provide considerable information that can be incorporated directly into the Module 3 models, so little work is lost in first preparing the profiles.

Unlike Module 1, the local field technician may need to be supported during profile preparation by a subject-matter specialist. Where the proposed project involves an area for which little local knowledge exists (e.g. solar electricity generation for lighting), a specialist will be required who can provide key parameters concerning cost and performance, so as to avoid extensive work on a proposal that is clearly technically infeasible from the start.

Module 3 – Detailed Project Formulation and Analysis

The third phase of RurallInvest consists of preparing a more detailed project proposal, using the Module 2 profile as the starting point. Participants in this phase may include not only the applicants and the local technician (community promoter, extensionist, etc.), but also a support technician, trained in the use of the computerized RurallInvest models for project formulation and analysis. It is possible that the local technician assumes this function. Generally speaking however, the two roles are sufficiently different that a separation of responsibilities is required.

In the detailed project preparation stage additional external technical input may also be required, depending on the investment value and its complexity. External input may be needed from specialists in such areas as: environmental impact analysis; irrigation engineering; food processing, etc. Generally, however, their input is short, requiring no more than a few days to a week, in line with the value of the investment proposed.

The depth and level of detail required in the process of formulation and evaluation will depend on the complexity and the scope of the project. The support technician will provide support to the applicants and to the local technician in some or all of the following tasks:

- ▶ Determination of demand and benefits;
- ▶ Evaluation of the proposal's technical feasibility and scale;
- ▶ Assessment of the project's operational sustainability, both in financial and in environmental terms;
- ▶ Determination of the detailed costs of the investment and its subsequent operation;
- ▶ Selection and specification of an appropriate management and administrative structure;
- ▶ Estimation of sources and costs of financing;

The process of formulation and evaluation requires the use of a computer and is not generally carried out in the field. For this reason it is essential that contact be maintained between the responsible technician and the applicant(s) to insure that the proposal truly reflects their needs. Furthermore, it may be that the detailed formulation reveals aspects of the investment that require the applicants to reconsider their plans (for example, competition for labour at key periods of the year, or high maintenance costs).

Depending on the degree of complexity of the project, it is estimated that the detailed evaluation will require between three and six weeks per profile

and will call for several visits to the field by the technician working with the computer software.

Module 4 – Monitoring and Evaluation of RuralInvest Proposals and Projects

Many institutions or internationally financed projects adopting RuralInvest support the preparation and financing of scores, or even hundreds, of rural investments. Furthermore, the process of identifying and preparing these investments is often undertaken in a number of local offices spread throughout the area covered. In these circumstances, adequately monitoring and evaluating the proposals received can be a difficult task.

As a result, a fourth module has been developed to provide organizations using RuralInvest with assistance in monitoring and evaluating all investment projects prepared using the system. To meet the monitoring requirements, a search engine capability has been built into the RuralInvest software. The search engine can rapidly identify and provide key data on all projects entered into the computer. In addition, all projects are now 'tagged' in order to track their progress through the project cycle and permit a comparison of initial proposals with later results for evaluation purposes. Each of these functions is described briefly below:

Monitoring Data on Project Characteristics. Using a number of key indicators defined in every detailed project proposal (for example type of investment, location, total investment, employment generation, type of beneficiary) it is possible to use the built-in search engine function in the software to identify all projects stored in that computer which meet selected criteria. These criteria can define the location or status of the project, its type, beneficiary or environmental category or the technician who prepared it. Key financial indicators can also be selected for, such as internal rate of return, net present value, total investment cost or the use of donated resources. For example, by selecting the indicators 'northern field office', 'beneficiary group women' and 'small livestock', a table would be generated that showed all projects meeting these criteria and their key characteristics.

Evaluating Data on Project Performance. Proposals and subsequent projects prepared using RuralInvest can also be labelled according to one of the following stages in the project cycle:

- ▶ Proposal
- ▶ Approved
- ▶ Investment
- ▶ Implementation

The indicators described above can then be used to classify projects at different stages in the project cycle. Furthermore, by entering new data into projects as they move from one project stage to the next, it is possible to evaluate the projects in comparison with earlier stages. For example, entering data on such elements as actual yields, prices or quantities sold once the project is underway allows returns, employment generation and other measures of project performance to be re-calculated automatically, and hence easily compared with original projections.

E. RuralInvest Users

RuralInvest is potentially useful for any group, organization or individual that wishes to elaborate an investment proposal that adequately takes into consideration all of the key elements in the identification, formulation and evaluation of a project. However, taking full advantage of the different tools offered by RuralInvest requires: (a) training in the RuralInvest methodology and tools, and; (b) access to investment and working capital in order to finance the selected projects. Experience has shown that RuralInvest is thus most applicable in contexts such as:

- ▶ An agricultural or rural development fund managed by a regional development project, a Ministry of Agriculture, or even an NGO;
- ▶ A Demand-driven Rural Investment Fund (DRIF) or Community Development Fund (CDF), as promoted by the World Bank and other international agencies;
- ▶ An environmental and biodiversity protection program or one aimed at the reducing the impact of natural disasters, such as are supported by the Global Environment facility (GEF) and other agencies.
- ▶ As a loan analysis and evaluation tool for use by private and parastatal banks with extensive operations in the rural sector.
- ▶ In the *ex-post* evaluation by Governments and international agencies of the impact and profitability of rural investments once they have been implemented.

With respect to training, although it is not necessary that the assisting local technicians be experts in financial matters or economic analysis, there are certain minimum requirements for the key positions of local technician and of support technician:

Local technician or community worker

- ▶ Experience as organizer or facilitator of rural communities or groups of producers.
- ▶ A basic understanding of the concept of a project.
- ▶ The ability to communicate with rural individuals or groups.
- ▶ Experience in one or more of agricultural production, rural infrastructure and small enterprises.

Support technician

- ▶ Professional qualification, such as: agronomist, economist, administrator, engineer or other similar profession.
- ▶ Basic knowledge of rural production systems (agriculture, animal husbandry, agroindustry, etc.).
- ▶ Prior experience in the use of computers and MS Windows.
- ▶ Familiarity with the basic financial concepts (costs, income, interest rates, inflation, etc.).
- ▶ Participation in the first training course for field technicians.

Chapter II

THE ROLE AND APPLICATION OF INVESTMENT PROJECT PROFILES



II THE ROLE AND APPLICATION OF INVESTMENT PROJECT PROFILES

A. Introduction

This manual provides a detailed description of the methodology and procedures involved in preparing, and then assessing, project profiles for locally developed rural investments, using a participatory approach. Such project profiles comprise the first step in defining and assessing rural investments that not only respond to the real priorities and needs of the applicants, but which are also well prepared, contain all relevant information, and are readily understandable by those who will be asked to finance the investment.

A prior RurallInvest Module (Module 1) provides guidance on the initial process of collectively identifying the opportunities and obstacles facing a rural community or group and, through this process, creating a local development plan that selects and prioritises areas in which specific investments are expected to contribute to economic and social growth. Originally Modules 1 and 2 were combined, but experience has shown that many communities or groups seeking social and economic development funds have already participated in community or group-level processes similar to those outlined in Module 1, and thus are able to pass directly to the development and assessment of specific rural investment profiles. Furthermore, RurallInvest is also increasingly being used by individuals or families who are seeking financing for personal investments, that, by their very nature, do not require the participatory identification and prioritisation process dealt with in the first module.

However, it should be stressed strongly that an investment can only be as good as the purpose to which it is applied, and even an apparently successful investment will be a poor use of resources if it does not resolve a key constraint, or address a key opportunity, facing a family, group or community. The participatory process of identifying and prioritising key needs and constraints embodied in Module 1 and other approaches, is thus of real value, and should not be 'skipped over' or ignored because of a desire to get something done rapidly, or simply because it seems too much work.

Many projects fail simply because - from the outset - the goal and purpose of the investment is never clearly defined, and this is particularly true where the project represents the interests of a group or

entire community. A village dairy plant might be seen by the local farmers, for example, as a way to sell surplus milk, while the women of the village may see it primarily as a source of employment. Yet again, the village development committee might see it as a source of profits, which can be used to finance other activities in the community. These aims are not necessarily incompatible, but a community which is not clear from the outset as to the key issue to be tackled by the investment is likely to face severe problems later on: the farmers will complain that the high prices for dairy products set by the village development committee (to increase profits) is reducing demand for their milk, while the committee may blame instead the high costs caused by having too many staff on the payroll (to create employment in the village).

Except in the case of very small, or simple, investments, the project profiles produced in this module are not the end of the investment analysis. In fact, it is important to realise that, for investments of any size or complexity, the fact that the profile yields a positive result provides no guarantee that the eventual investment will be worth undertaking. This is because the profile is a simple 'back-of-the envelope' approach, designed to be easily understandable by rural villagers and farmers, and to provide a warning for those ideas that are clearly not realistic and need to be re-thought. However, the profile ignores, or leaves aside, many complications that need to be taken into account before a decision is made to commit tens of thousands of dollars to an idea.

It is for this reason that - in most cases at least - an attractive investment or project profile will be taken forward to the stage of detailed project preparation and analysis. This process is the theme of Module 3. In Module 3 such factors as changes in the project over time, the impact of financing costs, the need for working capital, and a greater definition of demand, management and environmental issues, are all given attention.

B. Defining a Project

Many people are not clear as to what an investment project really is, and this often becomes apparent when moving from the needs identification and prioritisation stage of Module 1, to the project profile identification and assessment in this Module. As a result of such confusion, ideas will often be presented which are not really projects and considerable time can be wasted attempting to prepare profiles on the basis of these ideas. It is useful, therefore, for the field technician to sit with the group at the beginning of the profile stage and ensure that they understand what an investment project is, and what it is not.

In broad terms an investment project can be defined as follows:

“The expenditure of resources in the present, in order to generate benefits in the future”

The key elements of this definition are that resources (whether these be in the form of money, land, labour or other assets) are used in **this year** but that the benefits come in **future years**. If benefits are generated in the same year but not in the future (e.g. fertilizer to be applied to a current crop), this is not an investment project, but rather the purchase of inputs for current operations. Most investment projects generate a **stream of benefits**; that is to say, a single investment now will result in benefits being produced each year for a number of years into the future. It is also important to remember that the future benefits do not have to be directly in cash earned, and may not even be in a form that is easy to define. The benefits from building an access road to a village can be substantial, but they are often difficult to define clearly, and may include such elements as: (i) better access for local people to social services in the nearest town; (ii) easier and cheaper delivery of inputs to the community; (iii) easier shipment of products from the community to external markets; (iv) establishment of new businesses in the community and; (v) reduced outmigration of young people who no longer feel so isolated, and who now have improved employment opportunities at home.

Not all results of an investment may be positive. In the example given above, the access road may also result in faster deforestation around the community and increased erosion on slopes crossed by the road. For this reason, the design of a project may need to include measures to reduce these negative effects.

Under the definition given above, expenditures on education and training can be classified as an investment project, as they involve dedicating resources now (to train a person), and produces benefits in the future (as the person applies his or her training). While this is theoretically correct, many financing agencies are reluctant to fund local investment projects that are completely based on education and training. In part this is because it is difficult, if not impossible, to ensure that the person stays in the position of activity for which he or she was trained. If they leave, the benefits of their training go to their new employer or activity somewhere else, possibly in another country. Secondly, it is much easier to monitor and control investment activity when physical objects are involved. If the project is to build a greenhouse for flower production, for example, it is relatively easy to check that the greenhouse has in fact been built. That is not to say that training cannot comprise a part of an investment project – in fact it is often an

important element of many projects. However, in such a case training costs are just one element in a larger investment.

C. Principle Stages in the Preparation and Use of Project Profiles

There are three principal stages in the preparation and use of investment profiles: (a) the identification of possible investment projects; (b) the definition and preparation of project profiles for those investments, and; (c) the use of those profiles to undertake a preliminary assessment of the project proposed. Each of these is discussed briefly below.

Identification of Possible Rural Investment Projects

Although a local development plan or similar tool should clearly identify the areas of priority for the group or community, it will often not define specific projects that will achieve this end, and even less frequently will it detail the investments that will make those projects a reality. As a result, it will generally be necessary for the community development officer, extensionist or other field technician working with the community to call one or more participatory sessions to identify the specific interventions that would best respond to the needs identified by the community in their local planning process.

This may well require helping the members of the group to understand the nature of a project and its underlying investment, as well as keeping the group realistic about what can and can not be achieved; for example, if the community is remote, with no vehicular access road or other government services, it is unlikely that a hospital is a serious option (although a community clinic may well be).

It is recommended that the community or group identifies an initial list of perhaps 3-5 possible projects, as not all will likely prove to be feasible – even at this initial stage – and some proposals may be rejected by the financing agency as not meeting one or more requirements for eligibility. For example, a scheme to provide potable water may appear feasible and be accorded a high priority by the group, but may require an investment per beneficiary that is beyond the maximum amount previously established by the funding source.

Such a case illustrates the importance of making clear to the participants at an early stage of the profile selection stage any restrictions that may exist as to the nature, use and extent of financing available. Some funds are reimbursable, and are thus restricted to investments that will generate an income stream to repay the loan. Many financing sources require a contribution from the group or

community, but the level of this contribution may vary according to project type. Again, few funds will finance activities that are environmentally harmful, but the definition of harmful may also vary substantially from agency to agency.

Definition and Preparation of Project Profiles

The heart of Module 2 is the preparation of the project profiles. It is critical that this takes place within the community or area where the applicants live, and that preparation is not moved for the sake of convenience to the offices of the technical agency, where only a handful of villagers (at best) will attend, and even then may well feel intimidated by the unfamiliar surroundings. No elaborate equipment is necessary for this work; although flip charts or blackboards are useful, they can easily be substituted for by large sheets of paper attached to the wall of the schoolroom, meeting hall or private house, using sticky tape or tacks. When using paper, thick markers are necessary, as most of the group will have trouble seeing names and numbers written with a normal pen.

In the early stages of using RuralInvest, many doubted that rural people, often largely illiterate, could really contribute to, and understand, a project proposal and analysis. Our experience has clearly shown that this is not true. While not all participants may be able to read the individual items written on the board – a sewing machine, for example, or an irrigation pump – they will certainly understand the numbers put against them. We will return to this topic again when we discuss the assessment phase of the Module.

It is important that, where possible, the members of the group do their own investigations as to costs and prices related to the idea they are putting forward, and do so before the session at which the project profile is prepared. If a group believes that a community-run river transport company would contribute significantly towards resolving key constraints within the area, then they had better have some understanding of how much launches, outboard motors and fuel will cost. Of course this is not always possible; when project profiles were prepared in indigenous communities in Ecuador, there was much interest in providing electricity for lighting and the pumping of water using solar panels, but it would be too much to expect that these communities would have expertise in this area – outside experts had to be consulted to provide basic information on the cost, durability and capacity of such panels. Even so, there were many other costs associated with the schemes, such as stringing public lights along the main

thoroughfare, the water pump and the water tower, that certainly were within their ability to define and cost.

Where the project proposal is not overly complex, and the group has done its homework beforehand, it is usually possible to prepare a project profile within a couple of hours – sometimes less. The complete group of 3-5 projects can often be dealt with in a single day, particularly if the community has previously selected different individuals or groups to find the required information on each proposal. On the other hand, if the key elements of the project have still not been agreed upon, and the group is ill prepared, a long and exhausting day may not be enough to properly prepare and assess a single project profile.

Undertaking the Preliminary Assessment

A number of basic indicators are used to provide a preliminary assessment of the project profile, and these are described and discussed in Section 5.6. Together, these measures provide a very rough and ready guide to the viability of the eventual project. Except in the case of very small or simple projects, they can not tell us whether or not a project is likely to be successful; too many details still unsettled, and too many factors left aside, for that to be possible. However, they do provide an indication as to whether it is worth dedicating the time and resources necessary to move from the profile to the full project stage.

Given the simplifications employed, if a project appears infeasible at the profile stage, it is unlikely to prove worthwhile later on. Thus projects that fail the simple tests applied at this level should be rethought, and either abandoned or restructured to respond to the apparent weaknesses.

The specific indicators used to assess a project profile vary according to whether the project is income generating or not; i.e. whether the project is justified on the basis of its profitability, or on its social, environmental or other non-monetary impact. For projects targeting profitability, costs must be less than income, and the net income must be enough to repay the initial investment within a reasonable period of time, as well as to fund the eventual replacement of the machinery and equipment employed. For non-income generating projects, the aim is to keep investment and operating costs per beneficiary within acceptable levels, and to identify sources of labour and money that will be needed later on for operating and maintaining the investment (school, road, etc.).

Chapter III

THE PROJECT PROFILE



III THE PROJECT PROFILE

A. What is a Project Profile?

A project profile is a simplified description of an eventual project. In addition to defining the purpose and ownership of the project, it presents a first estimate of the activities involved and the total investment that will be required, as well as the annual operating costs and, in the case of income generating projects, the annual income.

It is simplified in a number of senses; costs may still not be well defined, minor items may be excluded, and assumptions as to the demand for the output of the investment, whether it be a childcare facility, a bridge, or canned vegetables, are probably just that – assumptions.

B. What is the Purpose of the Profile?

The project profile serves a number of important purposes. These are discussed briefly below.

- a) It helps to ensure that the members of the community or group involved understand the probable implications of their proposal in terms of investment and operating costs, labour requirements, scale of operations and other factors. It is often not until the proposed project is debated publicly and written down in front of everyone that these elements really emerge. Up to this point, group members may just have felt that it would be 'good' to have a new access road to the village, without really understanding what that might entail – both for the village as a whole and for them personally.
- b) It helps eliminate wasted effort in preparing detailed projects that are incoherent, lacking support among the applicants, or which fail to meet basic tests of viability. If human and financial resources to support project formulation are limited – which is usually the case – this aspect of the profile in acting as a 'filter' is very important. If the community can only receive funds to support one full project preparation per year, it is best not to waste those resources on a project that has no chance of success.
- c) The participation of group members in the preparation and assessment of the profile is an important stage in the ownership process for the specific project, as well as increasing the confidence of the participants in their ability to identify and develop real solutions to their problems (or responses to opportunities). For communities and groups, which have always

relied on outsiders telling them what should be done, such confidence building is a valuable contribution to the social capital of the community.

- d) Together with the other stages in the RuralInvest approach, it contributes to a more successful implementation process. Experience has shown that projects developed through RuralInvest, and which have had participatory project profile development exercises, present fewer problems during the subsequent implementation process. In part this seems to occur because the applicants understand more clearly the objectives and operation of the project. Other factors may include their increased confidence and ownership in the project, and the relationship developed with the local technicians.

C. What is the Difference between a Profile and a Detailed Project Design?

Although a profile is normally the first step towards the development of a detailed project design, there are important differences between the two. The profile is a simplified view of the eventual project that makes important compromises in order to reduce the complexity of the analysis and render it understandable by rural populations with no previous experience in project design or analysis. Such compromises are not, in themselves, bad, but they can be dangerous if the person leading the participatory sessions at group or community level forgets that they exist, and encourages the participants to think that the profile is the project. The following are key characteristics of a project profile.

A Profile is a 'Snapshot' of the Project: A proper project analysis considers the changes to the project over time. A small plant processing fruits for jams and other preserves may process increased volumes as the years go by, may increase its efficiency of processing (thus reducing costs), or may start to process other fruits harvested at different times of the year, thus staying open more months of the year. The profile, however, takes the simple approach and looks at the results from an **average year over the project life.**

A Profile Simplifies the Replacement of Equipment and Machinery: In the real world, machinery and equipment are replaced when it is too expensive to keep them functioning. The project will face costs in the year they are replaced. For the project profile, with its 'snapshot' view of the world, this is not possible. The profile, therefore, sets aside funds in the 'average' year selected to contribute to the eventual cost of

replacing the machine. While not completely accurate, this does at least provide some allowance for this essential step.

A Profile Includes no Financing Costs: A key simplification made in preparing a profile for income generating projects is to completely ignore the cost of financing as the estimation of such costs requires quite complicated calculations (non-income generating projects will not normally have financing costs, as they use grant funds, rather than loans). In the detailed project analysis financing costs are considered – not only for the investment itself, but also for working capital needed to cover initial operating expenses. Financing costs can be significant and their absence at this stage means that the profile will tend to look more attractive than it would do if these costs were included, and this should be borne in mind.

A Profile Uses Broad Estimations for Costs and Income: In preparing a detailed project it is expected that the applicants will make every reasonable effort to obtain accurate information as to costs and income (including yields and prices). A workshop might be broken down into improving access for vehicles, the concrete base, the major structure (per square meter), the water and power supply, and the equipment to go inside. This is not necessary or even desirable when preparing the profile. It is sufficient at this stage to estimate in general terms that the approximate cost of the workshop will be \$12,500.

A Profile Excludes Associated Costs: Projects typically involve a number of associated costs that are largely ignored at the level of the profile. These can include such items as: technical training of staff; establishment of systems (for example book-keeping); fees for sanitary certificates or company registration; design of packaging and labels, and; payments to architects, surveyors or engineers who will oversee works needed for the project. Although each one of these costs may not in itself be very large, together they can add significantly to start-up costs for the new enterprise. However, they require considerable work to estimate accurately and are normally ignored in preparing the profile.

A Profile Pays Limited Attention to Project Organization and Impact: In order to ensure that an investment results in a successful project, it is critical to consider carefully how the eventual project will be managed and operated, and what sort of impact it might have on the social, cultural and environmental setting it is placed in. Determining these factors may often involve considerable discussions among the group, and in the case of environmental impact, may even necessitate bringing in a specialist evaluator. Again, it is not necessary to provide all the answers at the profile stage. However, it is important that the applicants have given some thought to these

factors, otherwise arguments may severely damage the groups unity and commitment later in the preparation process.

D. The Principal Elements of a Project Profile

The project profile, as prepared with the applicants, consists of five parts. The last part has two variations: one exclusively for income generating projects (5a); and the other for non income generating projects (5b). With the exception of Part 1 (the Introduction) it is not essential that the components be completed in the same order as presented. Many groups prefer to define the investment before tackling general costs or income, but this is not required. An example layout for the components is presented in Annex 1 to this manual, and can be used as a guide when drawing out the tables on a blackboard or large sheet of paper.

Part 1: Background Information: This section provides general information about the applicants, the location of the project and its characteristics, as well as a brief summary of the objectives and justification for the investment, including the demand anticipated for the product or service resulting from the project when operating. The purpose of Part 1 is to allow anyone not familiar with the project to understand – preferably in no more than 1 page – the background to the proposal. Agreement should be obtained from the applicants as to the general purpose and characteristics of the eventual project as well as who would likely be involved in its operation and management.

Part 2: Investment. In this section the applicants are asked to list the various elements that will have to be obtained (purchased or supplied by the group) for the investment to be realized. For each item (except land – see Section 4 of this manual) it is also necessary to estimate the average working life of the item and who is to provide it (loan, donation, contribution of the community). A simple calculation is then made to determine the average annual cost of each item.

Part 3: Operating Costs and Income per Activity: This section describes income and costs directly resulting from carrying out activities made possible by the project, and which change according to the scale of activity (i.e. the greater the activity, the greater the costs and income). If the project is a simple one, there may only be a single activity, for

example the grinding of grain (in the case of a local mill). However, in other cases there could be several activities; for example a dairy plant may produce cheese, butter and yoghurt. The section is primarily of relevance to income-generating projects, although there are some circumstances where it may prove useful to list operating costs and even income for other types of projects as well (e.g. where there is a user charge for a health clinic). To adequately complete this section, it is necessary for the group to understand the concepts of production units, sales units and production cycles, which are discussed further in Section 4 of this manual.

Part 4: Total Income and Costs: After estimating operating costs and income per activity, results are aggregated to obtain total figures. Aggregated operating costs of the various activities foreseen are generally the larger portion of total costs. The other portion of total costs comprises **General and Maintenance Costs**. These refer to costs that do not change with variations in the scale of production, but arise from the project in general. They may include such expenses as: hiring a manager, nurse, or other employee; operating a vehicle; local land or property taxes; or office expenses. They will also include the costs of maintaining (but not replacing) equipment and other goods purchased or built at the investment stage - for example maintaining an access road, or repairing fences used to protect a reforested area.

Part 5a: Preliminary Estimate of Viability (income generating projects only). This section is used to briefly describe demand/market situation and to perform simple calculations required to make the preliminary estimate of project viability. The key calculations are:

- ▶ Annual Net Income: To determine if projected income is higher than direct and general costs

- ▶ Annual Net Income less Annual Investment Costs: To determine if annual net income (above) is sufficient to also cover replacement of the investment as it reaches the end of its useful life
- ▶ Number of Years of Net Income Needed to Cover the Investment: To determine if the annual net income is high enough to pay back the investment cost within a reasonable period of time.

Part 5b: Preliminary Beneficiary Estimates (non income generating projects). This section relates the overall cost of establishing and running the project to the number of beneficiaries and also considers how operating costs will be paid for. Key calculations are:

- ▶ Investment Cost per Beneficiary: The total expected investment cost divided by the number of direct beneficiaries (users and suppliers) and indirect beneficiaries (all those potentially affected by the project).
- ▶ Annual Operating Cost per Beneficiary: The total annual operating cost (including maintenance and repairs) divided by the number of direct and indirect beneficiaries.

The preliminary identification of future sources of funds for project operation and upkeep is also a very important part of profile preparation for non-income generating projects. Obtaining investment funds is often much easier than finding resources to cover annual costs once the project is underway. Any part of this cost not assured from outside sources will have to be met by the users of the project and/or the surrounding community.

Chapter IV

KEY ASPECTS TO CONSIDER IN PREPARING A PROJECT PROFILE



IV

KEY ASPECTS TO CONSIDER IN PREPARING A PROJECT PROFILE

A. Introduction

Despite its simplified nature, there are a number of key factors (or parameters) that must be understood and considered by the applicants if they are to adequately complete the project profile. These include: (a) the level and nature of the demand for the eventual project; (b) the relevance of supply constraints (where applicable); (c) the definition of project operations, such as the units of production and the production cycle; and (d) the types of costs involved. Each of these is examined in more detail below.

B. The Importance of Demand

The correct estimation of demand is critical for any type of project. No project is worth undertaking if it does not respond to a demand – either from the market (in the case of projects generating products or services for sale) or from potential users (for non income generating projects).

As a result, the estimation of existing or potential demand must comprise the first step in assessing the viability of an investment. A knowledge of the level of demand likely to be met by the project not only determines its overall feasibility, it will also play an important role in deciding the location of the project (e.g. a health clinic, transport service, or shop), the scale of the investment, and the nature of the item or service to be offered.

While it is not necessary at the profile stage to enter into a detailed analysis of demand, no profile should ever be prepared, or accepted, which does not explain the basic assumptions as to who would be the purchasers or users of the output of the project, and what their pattern of use would be. These key aspects are explored in more detail below:

1. Income Generating Projects

For income generating projects the two key factors are the quantity that can be sold (i.e. that will be purchased), and the price that the buyer will pay. For some products, such as grains, construction blocks or cooking oil, demand is rarely a limiting factor; the market is large and the sort of projects supported by RuralInvest are unlikely to meet more than a small fraction of total consumption. Furthermore, as the products are not readily

perishable, they can be made available year round, and prices tend to change only gradually, reflecting variations in raw material and storage costs. Thus determining volumes and prices for these products is a matter of project output, and predominant market price (less transport costs to the market).

Perishable products, however, are a different story. Here available volumes, and therefore prices, can vary enormously, as the product is expensive if not impossible to keep for another day. Fresh vegetables may be very abundant and cheap in the winter, for example, when rainfall is adequate and temperatures moderate, but may be very scarce and expensive in the summer when irrigation and even shade netting may be required. For perishable products, therefore, it is critical to consider the seasonality of production for the proposed project, and relate that seasonality to the prices likely to be encountered.

Specialized products (including many processed foods, clothing and services) are the most difficult categories for which to determine market demand and prices. Prices are not standard for all goods or services of one type, but vary according to ingredients, quality, and the perceptions of the buyer. Prices may be estimated on the basis of the closest comparable product, although if no distinct and obvious difference exists which will attract the buyer, a significant price reduction may be necessary at the beginning to persuade purchasers to shift from the existing alternatives to the new product or service offered by the project. Sales volumes can be equally hard to estimate, especially if the product or service is new, or is entering a very limited market. In such cases, investment plans should not be over ambitious, and the minimum scale of production that is compatible with cost considerations is recommended, at least for start-up. Where services are concerned, it must be remembered that a service not sold during a particular time period (e.g. the use of a tractor for land preparation) is lost forever, so variations in demand according to season are critical.

2. Non Income Generating Projects

Although it may be difficult to estimate demand for a marketed product, where there is no market at all, estimating demand can be even harder. What will be the demand for an investment in watershed protection, or for a new primary school? The starting point in the absence of markets must be to identify who are the expected beneficiaries, both direct and indirect. Normally one thinks of beneficiaries in terms of families, so for every school child or patient at a medical clinic, there is a family which benefits.

Perhaps the best way to try and identify potential direct beneficiaries is to ask: “What are people doing in the absence of this product or service? Would they change over to become users (i.e.

beneficiaries) of the new project?”. Another key question is: “How many new users might be created if the project goes ahead?”. Perhaps only a few children in the area currently go to school, as the only existing facility is some kilometres away in the nearest town. But how many might be tempted if the school was now within walking distance? It should not be forgotten that suppliers and workers are also direct beneficiaries, and should be included in the estimation.

An erosion control project might have few direct beneficiaries (e.g. farmers and householders directly affected by the erosion), but a considerable number of indirect beneficiaries (e.g. all those using the river or streams that would be protected). In fact, indirect beneficiaries often include the entire population of the area served by the project, whether it be a bridge, potable water, or a day care facility, so this number is often quite large in comparison with the number of direct beneficiaries.

C. Supply as an Influencing Factor

Although not as universally important as demand, supply can also have a considerable bearing on the viability of a project, particularly one producing outputs for the market. If operations will require inputs of raw materials (for example, milk for a dairy processing plant), or considerable quantities of labour, it is important to consider the availability of that supply. Where are dairy farmers selling their milk now? What will be the incentive for them to sell instead to the new plant? Do the men and women of the community have the free time to work in the project?

As in the case of the sale of outputs from a project, input availability may also change by season. Will labour be scarce at certain times of the year as workers disappear to harvest their fields, or migrate to work on larger farms in the lowlands? Will milk production decline in the dryer and hotter summer months? A processing plant for fruits and vegetables may be able to operate only a few months per year, as insufficient supply may be available for the remaining months to keep the factory in operation.

D. Describing Project Operations

In order to prepare a project profile, a few key terms used to define the parameters or characteristics of the project must be learned. The four most important terms are described below:

1. Project Beneficiaries

Project beneficiaries are those who will derive some benefit from the implementation of the project.

Two types of beneficiaries can be defined: direct and indirect.

Direct Beneficiaries: Direct beneficiaries can be defined as those who will participate directly in the project, and thus benefit from its existence. Thus all persons who will be employed by the project, supply it with raw materials or other goods and services, or who will use in some way the output of the project can be categorised as direct beneficiaries. The patients expected to attend a health clinic, or the children expected to attend a local school (and their families) would be classified as direct beneficiaries. So would the nurse or teacher who works in the clinic or school. Direct beneficiaries of an access road might include those expected to pass along the road (drivers and passengers), as well as farmers and other sending goods on trucks along the road.

Indirect Beneficiaries: Indirect beneficiaries are often, but not always, all those living within the zone of influence of the project. Thus, although a health clinic might expect to treat only 1,500 patients, indirect beneficiaries may well include all those within 5km., 8 km. or even 10km. of the clinic (depending on how easy access is to the community where the clinic is situated), as they will benefit not only from the better health of those treated (who will come from their communities), but also might well be patients at some point in the future. The indirect beneficiaries of an access road might include all those in the communities reached by the road, as well as those living within a few kilometres on each side of the road.

It is often only possible to make broad estimates of indirect beneficiaries for two reasons: (a) there is no clear line separating those influenced by a project from those beyond this zone, as the boundary will depend on the person and the degree of need or importance of the project output. One person might be willing to travel 15km. to reach a health clinic, while another may not go beyond 8km; (b) for many categories of project, there may be no clear distinction between a beneficiary and a non-beneficiary. Someone who lives 5km. below a project that is protecting a watershed might be seen as definitely a beneficiary, but someone who lives 50km. downstream may not be. But where is the boundary of influence? 10km.? 20km? If a project protects biological diversity in a natural forest area, who are the indirect beneficiaries? These questions are not always easy to answer, but at least we can be aware that such uncertainty exists.

2. The Units of Production

The unit of production defines the way in which production costs are expressed. For example, if a person tells you that a rice crop requires 100 kg. of fertilizer, your first question might be: 100 kg. for

what area? What you are asking for is the unit of production. For field crops the unit of production is usually the hectare, or whatever other measure of surface area might be used locally. Thus we may be talking of 100 kg. of fertilizer per hectare. **The numbers inserted in the profile for costs therefore depend upon the unit of production chosen.**

While crops are usually straightforward in their units of production, other activities may not be so simple. For example, a project to produce poultry might measure costs per bird, per 100 birds, or per poultry shed (containing, perhaps, several thousand birds). A transport project might define costs per truck, or per ton kilometre. When we talk about units of production in a processing plant or workshop, the unit of production could be the entire plant or workshop, but this can have disadvantages. If later on you wish to expand (or decrease) the size of operations, you must recalculate all over again. A better way is often to define the unit of production as being the same as the sales unit (e.g. a kilo of cheese, or a shirt).

The important thing to remember is that once defined, the unit of production should be used as the basis for all cost calculations.

3. The Production Cycle

While the unit of production defines how we measure costs and income, the production cycle defines the period over which we measure them. For many crops this is not difficult – it is **the period from preparing the soil for planting until the final harvest**. For maize, for example, there might be one production cycle per year lasting four months. For tomato, there might be two production cycles per year, each lasting 3 months. **This means that the fertilizer used as an example above is applied to rice per hectare and per production cycle.** If rice is grown twice a year, then the 100 kg./ha would be applied to each crop.

No production cycle in RuralInvest can be more than 12 months. For permanent crops, therefore, such as fruit trees, palms and coffee, which produce over a period of many years, as well as for livestock such as dairy cattle, the production cycle is usually best defined as 12 months, **as costs are incurred continuously**. With a twelve month production cycle, there can only be **a single cycle per year**. However, some continual production activities (for example a metal fabricator, or a clothing workshop) are best suited to the use of shorter production cycles, as their costs and income are most commonly expressed on a weekly or monthly basis (staff salaries, electricity, payment to suppliers, etc.). Thus you might have 12 cycles of one month each, or 52 cycles of one week.

For a hotel, the production cycle may be as short as one day, with up to 365 cycles per year (less if the hotel is shut down for a period every year). For a poultry operation, there may be 4 cycles of 12 weeks, with a four week break every year to permit an annual cleanup and disinfection².

As for units of production, there is no absolute correct answer to how to define the production cycle; often several choices are possible. However it is best to choose the easiest alternative, and you must remember that the **duration of the cycle times the number of cycles** must add up to the total production period per year: an agroindustrial plant may have 7 one month cycles per year, for the remaining 5 months it is not in operation.

4. Sales Units

Sales units are simply the unit used in pricing the output. Thus they can be in kilos, passenger seats, hotel rooms (or beds), pairs of shoes, or cases of 12 jars. What is critical is that they relate to the unit of production defined earlier. Thus for rice, the sales unit may be tons, but they must be **tons per hectare**, if that is the production unit defined. A dairy herd might have litres of milk as its sales units, but these would be **litres of milk per production unit** (often per cow). Sometimes the two units will be the same - a juice plant may define both the production and sales unit as a 20 kg. drum of juice. Thus costs and income must both estimated for each 20 kg. drum.

E. Categorizing Costs

There are three principal types of costs to be considered in preparing a project profile:

- ▶ Investment costs
- ▶ Production or Operating costs
- ▶ General costs or Overheads

Although detailed investigation of costs is not required - or even recommended - at the profile stage, it is important that an effort be made to assign all known costs as accurately as possible to each of these above categories. Where this is not done, the profile may not properly reflect the cost structure of the proposal, causing errors that may result in an apparently viable project being rejected, or a poor project being approved for further detailed analysis.

1. Investment Costs

The investment constitutes the heart of any project. An investment is a cost which once paid, will last for

² For those who are curious, the cost of the annual cleanup would probably be best treated not as a production cost but as an overhead. This difference is discussed in the following sections.

a number of years. Some investments will last many years – for example a well – while others, such as a computer, may be only good for 4 or 5 years. But all investments must last more than one year. By definition, a cost that recurs every year is not an investment, it is an operating cost (like purchasing fertiliser).

Land is a special type of investment. Unlike other types of investments, land usually does not lose value over time, and is considered to last indefinitely. As a result, while the average annual cost of a truck may be the cost of the truck divided by the number of years it runs, for land the average annual cost is usually assumed as zero; it can be used for many years and still has the same value. Buildings made of stone or other solid materials may also last a long time, but they must usually be maintained, and so will have an annual cost associated with them.

Not all investment is in the form of physical goods (buildings, machinery etc.), although these are typically the most frequent. One can also invest in less tangible items, such as training, design of packaging, or in accounting systems – but the same rule applies: each of these investments is a one-off expense that produces over a number of years.

Despite the above rule, it is not always easy to decide whether an item should be treated as an investment. The most common example is the cost of establishing or purchasing permanent crops or large livestock. While the establishment of each hectare of coffee, or purchase of each breeding cow, is clearly an investment, if it is intended to establish/purchase frequently during the project period (e.g. rehabilitation of 20 ha of citrus undertaken on the basis of 4ha per year over 5 years), it may well be easier to treat them as an operating expense.

2. Production or Operating Costs

Investment costs are not the only type of costs facing a project. Once the investment is completed, the vast majority of projects (and all income generating activities) will have costs of operation or production. In the case of a local road, these may be no more than annual repair and maintenance, but for a dairy processing plant, these operating costs will include raw materials (milk), labour, other additives, packaging and electricity, to name only a few. Production or operating costs have the characteristic that they are recurring; that is they are incurred regularly, on a periodic basis that can be daily, monthly or at some other interval, but will be at least annually.

A second key characteristic of production or operating costs is that they arise directly from the use or functioning of the investment. They are directly affected by the scale of these activities (for

this reason they are also sometimes referred to as direct costs). Thus, if the project operates at only one half of the level that it did in the previous year, the operating costs will also decline.

Labour is considered a production or operating cost if it is paid in relation to the scale of activity. Workers paid only when there are tasks to be done (e.g. harvesting, working on the production line in a plant) would therefore clearly be production costs. However, the salaries of any staff paid whether the project is running at full capacity, or nearly stopped (for example, the manager, or the mechanic in charge of the machines), would not be classified as a production cost, but rather as a general or overhead cost (see below).

It is not always easy to make the distinction between these two categories. For example, a vet who comes every month to examine the cattle in a dairy operation: is his or her payment classified as a production cost? The answer is that it depends on how the vet is paid. If it is per animal inspected, it is clearly a production cost. If, however, a vet is paid per visit (no matter how many animals there are), it would be a general or overhead cost (see below). A useful rule of thumb is that any cost that varies when the scale of operation changes by 20%, is a production cost.

3. General and Maintenance Costs

General and maintenance (or overhead) costs comprise the third category of costs faced by a project. These are costs that occur because the project exists, but which do not depend on the scale of operations. These might include office expenses, routine maintenance, local taxes, accounting services, or the cost of keeping a truck that performs a variety of jobs. Although they have to be paid on a regular basis (unlike investment costs) these costs often stay the same year after year, especially if inflation is not taken into account.

F. Environmental Sustainability

When preparing a project profile, it is not necessary to devote a lot of effort to considering environmental factors. However, it is important to be aware from the very beginning of the sort of factors that could lead to sustainability problems when full project preparation (Module 3) is undertaken.

Environmental sustainability deals with the impact of the proposed project on the natural resources and environment in the area of the project. If it is intended to use a small stream to irrigate a large area, the amount of water needed might be more than could be drawn from that source during the dry period of the year. As a result, the irrigation

system could fail, or there could be insufficient drinking water available to communities downstream. Such a project would not be sustainable. Projects which result in the destruction of natural forests, mangrove swamps, wetlands or other natural areas are also likely to be unsustainable, as the impact of these changes may well damage the livelihoods of the communities in the area, and result in erosion and other damage to the environment.

It should also be remembered that many sources of financing for projects will not approve activities that lead to environmental damage, so although the

project may seem very profitable, it will be impossible to obtain the required loans or grants to implement it.

There are projects that may cause environmental damage if poorly designed, but will not if the design is properly thought out. This often involves considering 'mitigation' measures that will reduce the environmental impact. An example might be a slaughterhouse producing much waste material, which would pollute the waters of the river into which the effluent is pumped. Here the inclusion of wastewater treatment tanks may permit the water to be purified before entering the river, and thus eliminate the problem.

Chapter V

COMPLETING AND INTERPRETING THE PROFILE



V COMPLETING AND INTERPRETING THE PROFILE

A. Introduction

As has been mentioned several times in the course of this manual, the project profile must be completed in a participatory manner, with the full collaboration of the applicants. This is vital for a number of reasons (see Section 2.3) and the temptation for the local technician to prepare the project profiles on his or her own should be avoided. Equally, the technician should be wary of groups where only one or two people speak throughout the meeting. These people may be presenting the views of the entire group, but they may also simply be the most important people in the room, and thus deferred to by the other participants. In the same manner, women may not wish to speak up in front of men, or may not even be invited to participate in the group meeting. Where these sorts of problems arise, it may be necessary to have more than one meeting and create several possible profiles or develop a combined profile that is synthesised from the different meetings.

No elaborate materials are needed for the participatory preparation process. If no room can be found that is large enough for the entire group, the session can be held out of doors. A large blackboard or flip chart for writing on is useful so the whole group can see, but it is possible also to write on large sheets of paper and stick them to a wall with sticky tape or pins.

If using paper, the basic table formats with headers and columns covering background information, investment, operating costs and overheads can be prepared in advance, but again this is not essential. A simple calculator is often useful for multiplying quantities together.

If the profile is to be transferred later onto the computer by the local technician (often necessary if a formal report, or request to proceed to full preparation, has to be made), it is strongly suggested that the technician provides group members with a copy of the final computer generated report. This will ensure that they are kept fully informed of the application process, and avoids later misunderstanding if the computer profile differs slightly from the exercise conducted at village level.

B. Background Information

In the majority of cases, the technician working with the applicants to prepare a project profile should already have a good knowledge of the group or

community, either as a result of undertaking Module 1, or through some other form of community diagnosis and planning exercise. The only exception to this rule would be where the applicant is an individual or single family. As a result, the technician should already have at his or her disposal the majority of the information needed to describe the proposed project in general terms.

Nevertheless, the following checklist may be useful in ensuring that all required information is noted. It is worth remembering that this information may not all need to be collected at the beginning of the session. Information on environmental impact or risks are, in fact, probably better discussed after the basic project design has been completed, as people will have a clearer picture of the project in their minds once they have been through such aspects as the investment and operation of the project.

- ▶ Name of the proposed project;
- ▶ Location of the project;
- ▶ Exchange rate (to the U.S. dollar) at the time of preparing the profile;
- ▶ The name of the main beneficiary group (otherwise assign a name or use name of the community);
- ▶ Description of the beneficiaries, including: (i) when group established; (ii) purpose of the group; (iii) whether they are drawn from more than one community; (iv) what they have done in the past; (v) current activities; (vi) breakdown of the membership by men, women, children;
- ▶ Identification of direct and indirect beneficiaries (see Section 4.2), divided into men, women, and children, where possible;
- ▶ A description of the project, including its justification and principal activities;
- ▶ The nature of the demand that will be met by the project or its output;
- ▶ The possible environmental impact of the project;
- ▶ Any other relevant information, such as related projects undertaken in the past, other possible funding sources etc.

C. The Investment

Although it is not necessary to start with the investment, and this section can be filled in after describing the operation of the project if preferred, most people are more comfortable by commencing the profile here. First list what will be needed to make the investment a reality. Generally, it is easier to break these needs down in to three categories –

materials, labour and professional services – and this model will have to be followed if the information is later to be entered into the computer. Remember: at the profile stage it is not necessary to provide detailed information as to each investment item. In the case of an irrigation system, for example, instead of describing the number of lengths of each type of tubing, it is sufficient to state “irrigation piping” and put a single figure.

For each investment item the following information will be needed:

- ▶ Description of the item;
- ▶ The unit of measurement (item, metre, set, etc.). For labour, the unit of measurement should be a day, a week, a month or some equivalent period of time;
- ▶ The number of units;
- ▶ The cost per unit (which can then be multiplied with the number of units to give a total cost);
- ▶ The contribution of the applicants to the cost of that item (if any);
- ▶ The economic life of the item (the number of years it will function before being replaced)
- ▶ The salvage value (the market value of the item at the end of its economic life)

Once this information is obtained (and most project profiles will have no more than 6-8 investment items) it is necessary to calculate the amount of money that would have to be set aside each year in order to allow the investment items to be replaced as they complete their economic life spans.

The ideal solution is to charge the cost of replacement to the year in which it occurs, as occurs in the detailed project analysis, but this is not possible for a project profile. Instead the concept of the ‘**annual replacement reserve**’ is used. In this concept the initial purchase cost of the item is divided by the number of years of economic life, to determine the amount that would have to be put aside each year to provide for replacement. Thus:

$$\begin{array}{r} \text{Value of the item when new (\$500)} \\ - \text{Salvage value of the item (\$100)} \\ \hline \text{Economic life of the item (10 years)} \end{array} = \$40/\text{year}$$

If this is not done, the project would receive the use of the investment free of charge, and once the items wear out, there would be no reserves to pay for their replacement. This calculation, therefore, should be made for each investment item in the last column of the table, and the total of all the items

added up at the bottom of the table. This sum will represent the entire amount to be set aside each year to ensure the investment can be replaced as the items wear out.

D. Operating Costs and Income per Activity

In many cases, a community level project will have only a single activity; for example a bus service connecting the community with nearby towns, or a day care that will look after the pre-school children of the village. However, in other cases a single investment may permit more than one type of activity. This would be the case for an irrigation scheme that allows several different crops to be grown, or a dairy plant that produces cheese, butter and yoghurt.

The first step in defining operating costs and (where applicable) income, therefore, is to decide whether separate activities will result from the investment. Where an activity has clearly separate costs (and if income generating, separate earnings) it should be treated separately³. If, however, the costs and income of the different actions are inevitably mixed together (as would be the case for a village bus that sometimes goes to one town and sometimes another, but uses the same vehicle, driver and assistant) then it should be treated as a single activity. If there is any doubt, it is probably best, at the profile stage, to treat it all as a single activity, in order to keep the analysis simple.

The second step – using the definitions discussed in Section 4.3 – is to define with the group the unit of production, and determine the number of units involved. For crops, as we have seen, the unit of production is generally the hectare, acre or other measurement of area. So for tomato production we might have 2.5 hectares. For other activities, it is the unit by which the costs would be most readily measured. This may be the entire investment e.g. the school, the clinic (in which case the number of units would be one), or a part (a kilometre of the entire road of 8 km., or one pond of a community aquaculture project with 5 ponds).

Finally, the group must decide the length of the production cycle and the number of cycles per year. Again, for crops this is generally straightforward – the length of the cycle is the length of the growing period (including land preparation and harvesting), while the number of cycles is the number of times that the crop is to be planted during the year – typically once or twice. For other types of activity, especially those which are continuous, it is often easier to use as the cycle the period on which most costs are based – e.g. a

³ The term activity is replaced in Module 3 with the more accurate phrase of a ‘block’, but activity is a more immediately understandable term and will be used at the level of the project profile.

week or a month – while the number of cycles will be the number required to fill the year (e.g.12 cycles of 1 month)

1. Operating Costs by Activity

Once these basics are decided, the group must identify and write down **the costs incurred in operating the activity per unit of production per production cycle**. This is probably most easily explained using an example:

Community Poultry Operation (Broilers)

Unit of Production: Poultry shed (1,000 birds)

Number of Units: 3 Sheds (per cycle)

Cycle de production: 3 months (including time to clean out and disinfect the shed)

Number of Cycles per Year: 4

Cost Item	Unit	Cost/unit	No. of Units	Total Cost
Day old chicks	Chick	0.30	1.050	0.3x1,050=315
Feed	Bag (25 kg)	12.00	95	12x95=1,140
Supplement	Bag (10 kg)	20.00	12	20x12=240
Labour	Day	20.00	50	20x50=1,000

In the case of village level production, there may be few additional operating costs other than these, but other projects may have more costs to consider. If, however, the profile extends to a dozen or more costs, the profile is probably becoming too complicated and should be simplified.

Total Cost per Unit per Cycle:

$(315 + 1,140 + 240 + 1,000) = 2,695$

Total Cost per Unit:

4 cycles x 2,695 = 10,708

This includes all cycles

Total Cost:

10,708 x 3 sheds = 32,340

This includes all units

2. Income per Activity

Where a project generates income or earnings, income must also be included in this section. Remember, however, that income must be calculated on the basis of the same parameters (unit of production and cycle of production per activity), as the costs described above. In addition, the calculation of income requires one further

parameter (or definition) to be determined – the unit of sale. For agricultural products this is generally a measure of weight; a kilo, a ton or a local measure such as a bushel. But even for crops, the unit is not always weight. Lettuce and some other crops are sold by the piece. For livestock it can also be per animal (price per chicken), or on a weight basis. For processed and manufactured items, it is typically per item (price per can of paste, pair of shoes, or loaf of bread), although weight can also be used (kilo of cheese, litre of drink).

For each unit and cycle of production (hectare/crop, etc.) we need to know the **output** in units of sale and the **price** received per unit. Again, this is generally readily understood for crops. Tomatoes may yield 4,500 kg. per hectare per crop, and sell at an average price of 1.2 units of local money (pesos, dollars, francs etc.) per kilo. For a juice plant with a production unit of a case of 12 x 1 litre containers, the sales unit is the same, so we need to know the price at which each case is sold. But where the production unit is per 1,000 litres of raw milk processed (as might be the case in a dairy plant), and the cycle of production is one day, then we must know: (a) how many sales units (kilos of cheese, etc.) are produced per 1,000 litres of input; (b) how many thousands of litres are processed each day (we needed this information to calculate total costs per cycle); and, (c) the price per sales unit.

Estimating income per activity is usually one of the weakest areas of an investment project proposal. Firstly, the fact that an investment has the capacity to produce at a certain level does not mean that it always (or indeed, ever) will do so. Many plants and factories work at less than full capacity, and many crops never reach the maximum yields seen in research station trials. Secondly, not all product that is produced is always sold. Some output may be damaged, and other output might not find a buyer. This is particularly the case for perishable items. Thirdly, prices used in estimating income are often optimistic, and sometimes wildly so. Remember that prices can vary considerably over the course of a year, especially for seasonal products such as are common in agriculture. Unless the project is specifically designed and operated to supply output at times of short supply, it is unlikely that it will obtain the highest prices for its output. These considerations are discussed in much more detail in Module 3 (Detailed Project Formulation and Evaluation). Here it is enough to insist that a healthy dose of scepticism should be applied to estimates of both output (yields etc.) and prices.

3. Incremental Costs and Income by Activity

When estimating operating costs and income within the context of a project proposal, it is not uncommon to find cases where project investments

improve performance or productivity of existing activities. Under such circumstances, investment impact should be assessed based on incremental costs and benefits. In General, incremental parameters are difficult to estimate without considering existing costs and benefits. Because of this, estimation of cost and benefits with and without project has become a standard practice. Operating costs and income of existing activities or without project are estimated as described above, just like any proposed activity with project. However when aggregating total costs and income, remember that costs and income of existing activities which will change as a result of project investments, must be subtracted from costs and income of 'with project' activities. For example, if a herd of ten cows produce 8 litres/day for 180 days/year (at a price of \$1/litre), with available pastures and minimum inputs, the 'without project' annual income would be \$14,400. With pasture improvement investments, the same herd could produce 10 litres/day for the same period and sale price, the 'with project' annual income would be \$18,000. Thus, the incremental annual income would just be \$3,600.

E. General and Maintenance Costs

General and maintenance costs (sometimes referred to as overhead costs) refer to those costs that are incurred by simply undertaking the project. They will have to be paid whether the chicken sheds are full or empty, or whether there are fifteen patients a day attending the community health clinic or none. As they do not vary according to the scale or size of the activity, they do not appear in operating costs (see previous section)

At the level of the profile there are usually few general costs. One of the most important is maintenance. Maintenance often has to be undertaken whether the machinery or equipment is used heavily or lightly. Roads will often have to be maintained due to damage by weather, irrespective of the number of vehicles travelling along them. Equally, buildings, other structures and many types of machinery must also be maintained.

Typically, it is easiest to estimate a simply percentage of the initial investment for maintenance. Thus if maintenance is estimated at 5% per year and the initial cost is 50,000, the annual maintenance would be $50,000 \times (5/100)$, or 2,500. In the next table are included indicative maintenance levels for different types of investments. These are intended as guides only, and may need to be adjusted for your particular circumstances.

Stone, brick or metal buildings and structures; major water channels; wells; settlement ponds	2 - 3%
Lighter wooden buildings, heavy machinery (including tractors and trucks), secondary water channels, fish ponds	4 - 6%
Light machinery (including cars), and general equipment	7 - 10%
Electronic and laboratory equipment (computers, printers, testing equipment etc.), outboard motors	12 - 15%

Note that there are some types of investment that have no maintenance costs at all, for example most furniture. Generally, a desk or table is simply used until it is too old, when it is replaced.

A second important type of general cost is that arising from permanent staff. While casual labour may be hired and paid on a daily or weekly basis as needed, technically trained and qualified staff, or those with important skills, must be kept on permanently – even if there is no work – otherwise they will not be available when they are next needed. This might include teachers, nurses, mechanics, supervisors, administrative staff and managers. As long as the project is still functioning, these categories of staff will have to continue to be paid.

When calculating their costs, do not forget to include (if applicable) social security contributions and other payments that the project (as employer) will have to make. Remember, at the profile stage it is not important to be very accurate about salaries and related costs. As long as they are realistic estimates, this is acceptable at this stage.

Other types of general cost are less common at the profile stage, but might include: local and land taxes; electricity and water costs; vehicle operating costs (especially where the vehicle is used across more than one activity, and hence can not be assigned as a specific operating cost); fees for periodic audit, accounting and general technical assistance visits; and office operating costs (where a fairly large commercial activity is planned). At the profile stage, attention should only be given to such costs if it is believed that they may be a significant part of the overall costs.

F. Preliminary Estimate of Viability (Income Generating Projects Only)

In addition to looking at general factors, such as the overall project concept, the proposed beneficiaries, and the way in which the project would be organised, three principle measures of project viability are calculated at the community level for income generating projects. These are the net income per year, the number of years of net income required to pay back the investment required, and the net income **after** allowing for replacement of the original investment. Together they provide a simple but useful guide to whether the profile is worth developing into a detailed project proposal.

If a profile produces a positive result for each of these tests, and if it also responds to the priorities and needs of the applicants, then the project is probably worth developing from the profile to the full project stage. Each of these three tests is discussed briefly below:

1. Project Net Income per Year

Net income is a very simple concept – it is the income left after all costs (both operating and general) have been paid. Even if the applicants are largely illiterate and with little or no previous experience in projects, they are generally fully aware that an activity that costs more than it makes, is not a good proposition. A profile that yields a positive figure for Net Income has thus passed one test.

If the profile tables have been laid out according to the guidelines provided here (see the Annexes for sample layouts), the calculation of net income is simply a matter of taking the total income figure from the costs and income table and subtracting from that figure the total operating cost and the total general cost.

2. Number of Years Required to Repay the Investment

While it is necessary that an income-generating project earn more than it costs to operate, this is not enough. The applicants must also have some measure of whether a positive net income figure is sufficient or too small to be worth having. This can be measured by looking at how many years of the net income are needed to cover the cost of the original investment.

Typically, investment costs provided by the community are included in the total investment amount, but if the community or applicant is confident that this contribution can be repeated in the future without difficulties, it may be worth excluding it, if only to provide an idea of the difference.

The calculation is simple:

Total Investment / Net Income = x years

Or:

$10,000 / 3,000 = 3.3$ years

In all cases, the smaller the number of years required to repay the investment, the better. Clearly, a risky project (that is one involving activities new to the group, or where demand is difficult to estimate) should have a shorter number of years to payback compared with an activity well known and understood by all involved, in order to compensate for the risk. As a rule of thumb, no income-generating project that requires more than 7 or 8 years to repay the original investment should be selected for further development, unless there are strong social or other reasons to proceed. Where the project is acknowledged to be risky, this figure should probably drop to 4-5 years.

3. Net Income after Allowing for Investment Replacement

One further financial test of the profile is important. It is possible that a project will generate an attractive positive net income, but that the costs of eventually replacing the investment involved will reduce that income significantly, or even make it negative. For this reason, it is worth considering how the net income will be affected if the 'annual replacement reserve', calculated as part of the Investment costs table, is charged to the net income used above.

To calculate the net income after allowing for investment replacement, simply subtract the annual replacement reserve from the net income calculated previously. If the figure is still positive, the net income is large enough to also provide for the eventual replacement of the current investment items.

G. Preliminary Beneficiary Estimates (Non Income Generating Projects Only)

Perhaps the most important difference between income-generating and non income-generating projects is that the latter are not selected or justified on financial grounds, but rather on the basis of the contribution that they will make to the social, cultural or productive life of the group or community. Clearly such aims are much more difficult to measure and assess than those relating to financial success. In fact, many financing agencies tend to focus primarily on the process within which such proposals are developed (to ensure that they

are indeed representative of the needs of the community), and at their cost per beneficiary. While neither of these measures tells an outsider whether the project is a good one or not, they do at least ensure that qualifying projects are a priority for their community, and do not absorb more than their fair share of resources.

The RuralInvest profile concentrates only on the second of these two measures – that of average cost per beneficiary – but it examines various aspects of this cost per beneficiary, including cost of investment and cost of operation.

The cost of investment calculation is relatively simple. The total cost of **investment**, calculated in the investment table, is divided; first by the number of direct beneficiaries, then by the total number of beneficiaries (direct and indirect). This provides the average investment cost per direct beneficiary and per all beneficiaries. This measure is frequently used by funding agencies to ensure that one group or community is not receiving more than its fair share of available resources. It is often useful to make this calculation also in terms of the amount of the investment that derived from the group or community's own resources and those for which a donation is required. Taking the example of a community health clinic (Table A).

What do these calculations tell us? They tell us that although the total investment cost is \$250 per direct beneficiary, this is reduced to \$50 if all beneficiaries (direct and indirect) are taken into account. It also tells us that if one looks only at donated resources, costs per direct beneficiary are reduced to \$200 and costs for all beneficiaries to only \$40. These are important numbers for the funding agency to know, but may also be of interest to the applicants themselves in helping them understand the costs that they will have to bear to make the project a reality.

A second set of calculations are similar, but use the total **operating cost**. If this total operating cost, comprising operations, maintenance and any other fixed costs, is divided by the number of direct and indirect beneficiaries, it will reveal the level of resources that will be needed to keep the project functioning for each beneficiary. Although users may not contribute directly to covering these costs in all projects (for example in the case of an access road) this figure is very important in showing the relative expense of keeping the project going. These calculations can be made still more useful by dividing the costs into fixed (maintenance and overhead costs) and variable (those which depend on the level of use of the project). (Table B).

Table A

Basic Information from Profile:

a) Total investment cost for proposed clinic:	\$50,000
b) Total value of community resources to investment:	\$10,000
c) Total donation required:	\$40,000
d) Estimated number of direct beneficiaries (per year):	200
e) Estimated number of indirect beneficiaries:	1000

Calculations:

- Total investment per direct beneficiary (a/d):	\$250 (50,000/200)
- Total investment per all beneficiaries (a/d+e):	\$50 (50,000/200+800)
- Investment cost (own resources) per direct beneficiary (b/d):	\$40 (10,000/250)
- Investment cost (donated resources) per direct beneficiary (c/d):	\$160 (40,000/250)
- Investment cost (own resources) per all beneficiaries (b/d+e):	\$10 (10,000/200+800)
- Investment cost (donation) per all beneficiaries (c/d+e):	\$40 (40,000/200+800)

Here we can see that the project managers will need an estimated \$25 per direct beneficiary per year, or \$5 for each person in the area (direct + indirect beneficiaries). However, only \$17.5 per direct beneficiary, or \$3.5 per local inhabitant is needed to cover fixed expenses (the nurse, upkeep of the building etc.). The remainder of the costs (\$7.5 per direct beneficiary) occur only when there are patients to treat (to cover medicines, linen etc.). This might suggest, for example, that patients should pay at least \$7.5 per visit, to cover these variable expenses, although if they could afford more (say \$10 per visit), this would reduce the amount the community or local government would need just to keep the clinic operational.

Table B

Basic Information from Profile:

f) Total estimated cost of clinic functioning:	\$5,000/year
g) Fixed cost (maintenance and overheads):	\$3,500/year
h) Variable cost (dependant upon number of patients):	\$1,500/year

Calculations:


- Annual operating cost per direct beneficiary (f/d):	\$25 (5,000/200)
- Annual operating cost per all beneficiaries (f/d+e):	\$6,25 (5,000/800)
- Fixed cost per direct beneficiary (g/d):	\$17,5 (3,500/200)
- Variable cost per direct beneficiary (h/d):	\$7,5 (1,500/200)
- Fixed cost per all beneficiaries (g/d+e):	\$3.5 (3,500/200+800)
- Variable cost per all beneficiaries (h/d+e):	\$1.5 (1,500/200+800)

Chapter VI

NEXT STEPS



VI NEXT STEPS



Completing the profile is an important step forward for any applicant, whether they be a community, group or even an individual. Preparing the profile will help them to see much more clearly the key elements involved in the proposal, from the overall investment required to the costs incurred in keeping it running. It will make them think about the market that the project will face and the income that the project might generate, if it is for-profit, or the strength of demand and the cost per beneficiary, if it is a not-for-profit project. Equally importantly, it will give them a broad idea as to whether the proposed project makes sense – either as a money earner, or as a cost to the group or community that will have to be met every year once the project is fully functional. Getting to this stage will frequently involve considerable discussion within the group, and often will require many compromises, as the scale of the project, and the number of activities that it will include, has to be rethought to match with reality.

Not all profiles will emerge from the evaluation process with positive results. This does not mean that the idea should be immediately abandoned. It may be that changing the number or scale of activities will render an unattractive project viable, or that the nature of the product needs to be rethought to better fit the type of demand foreseen. Remember, however, that ‘cooking’ the results to ensure a positive outcome helps no one. One of the roles of the local technician is to help the applicants to see which ideas make sense and which don’t. If a project seems to make no sense but the group still wants to push ahead with it, it is likely that they have other reasons for favouring the proposal that have not emerged during the profile preparation. The group may not always be honest with a visiting technician, or it may simply be that they have not expressed clearly some of the key reasons why the project is desirable to the group. Either way, it is the technician’s job to try and understand what these ‘hidden’ reasons may be,

and to bring them out into the open so the profile can more accurately portray the real situation.

An alternative problem may arise if more than one proposal seems to be viable, and the group can only make a single submission for detailed analysis and eventual financing. Unless the differences between the completed profiles are very large (e.g. the cost of investment is repaid in 2.5 years in one profile but in 15 years in the other), the evaluation process presented here is simply not sufficiently accurate or detailed to select between different proposals. Where the viable profiles include both income generating and a non-income generating projects the profile evaluation process can provide no help at all: these two types of projects are simply not comparable. If both production of eggs for the local market and the construction of a community day care seem feasible, other guidance is needed. It is here that the importance of a proper community development plan becomes apparent; if group objectives and priorities have been clearly thought out beforehand, then there will already exist a basis for selecting between these two alternatives.

In most cases, some form of higher approval will be required before a community can access the resources it needs for full project preparation (see Module 3) or – where the project is very small – it can obtain the financing for implementation. Normally this will involve the technician who has been working with the group presenting the profile to the financing or projects committee of the supporting agency, but it is always preferable if one or more of the applicants can attend the meeting, so as to ensure full community involvement. The faster the approval process, the easier it is to maintain the interest and commitment of the applicants. If it takes six months before the technician can return to the applicants with approval to move to the next stage, the proposal may have been largely forgotten in the worries of everyday life, and the technician will have a much harder job to get the group together once more to start work on the full-scale preparation process.

ANNEX 1

PROJECT PROFILE FORMATS



INCOME AND OPERATING COSTS PER ACTIVITY

Complete this page for each product, crop or activity of the project
When existing activities are affected, complete this page for activities with and without project

PRODUCT/ACTIVITY: _____ (0)

UNIT OF PRODUCTION: _____ (1) Number of units of production: _____ (2)

Duration of each production cycle (in months to a max. of 12) _____ (3) Number of cycles per year: _____ (4)

INCOME					
INCOME ITEM	UNIT OF SALE (kg, qq, etc.)	PRODUCTION PER CYCLE (units sold)	SALE PRICE (price/unit)	TRANSPORT COST (cost/unit)	TOTAL INCOME PER CYCLE
5	6	7	8	9	10=7x(8-9)
INCOME PER UNIT OF PRODUCTION PER CYCLE					(11)
INCOME PER UNIT OF PRODUCTION PER YEAR					(12) = (11) x cycles per year (4)

VARIABLE OPERATING COSTS					
INPUTS / MATERIALS	UNIT (kg, head, etc.)	QUANTITY PER CYCLE	COST PER UNIT	TRANSPORT COST	TOTAL COST PER CYCLE
13	14	15	16	17	18=15X(16+17)
COST OF MATERIALS PER UNIT OF PRODUCTION AND PER CYCLE					(19)
LABOUR	NUMBER OF PERSONS	WORK PERIOD (day, month)	NUMBER OF PERIODS PER CYCLE	COST PER PERIOD	TOTAL COST PER CYCLE
20	21	22	23	24	25=21X23X24
LABOUR COST PER UNIT OF PRODUCTION PER CYCLE					(26)
VARIABLE COST PER UNIT OF PRODUCTION PER CYCLE					(27) = (19) + (26)
VARIABLE COST PER UNIT OF PRODUCTION PER CYCLE					(28) = (27) x cycles per year (4)
INCOME MINUS VARIABLE COST: PER UNIT OF PRODUCTION PER YEAR					

TOTAL INCOME AND COSTS

When activities with and without project are considered, total figures of activities without project must be subtracted from total figures of activities with project

PRODUCT OR ACTIVITY page 3: (0)	Number of units of production page 3: (2)	INCOME		VARIABLE COST		INCOME MINUS VARIABLE COST	
		PER UNIT/YEAR page 3: (12)	TOTAL	PER UNIT/YEAR page 3: (28)	TOTAL	PER UNIT/YEAR page 3: (29)	TOTAL
	1	2	3 = 1x2	4	5 = 1x4	6 = 2-4	7 = 1x6
TOTAL PER YEAR							

GENERAL (entire project)	UNIT (month, visit, etc.)	NUMBER OF UNITS PER YEAR	COST PER UNIT	TOTAL COST PER YEAR
8	9	10	11	12=10x11
TOTAL GENERAL COSTS PER YEAR				

SOCIAL COSTS

PRELIMINARY BENEFICIARY ESTIMATES	
A. INVESTMENT PER BENEFICIARY	
TOTAL INVESTMENT (page 2: total in column 5)	_____ (1)
Applicant Contribution _____ % [(page 2 column 6 / page 2 column 5) x 100]	
Extrenal Contribution _____ % [(page 2 column 7 / page 2 column 5) x 100]	
PROJECTED NUMBER OF DIRECT BENEFICIARIES	_____ (2)
Indicate if this is: Families _____ Individuals _____	
TOTAL INVESTMENT PER DIRECT BENEFICIARY = (1) / (2)	_____ (3)
EXTERNAL INVESTMENT PER DIRECT BENEFICIARY [(page 2: column 7 / (2))	_____ (4)
B. ANNUAL COST PER BENEFICIARY	
TOTAL ANNUAL COST page 5: (4)	_____ (5)
Of which: Variable costs _____ % [(page 5: (2) / page 5: (4) x 100]	
General/overhead costs _____ % [(page 5: (3) / page 5: (4) x 100]	
ANNUAL COST PER BENEFICIARY	(5)/(2) _____ (6)

DESCRIBE THE SOURCE OF FUNDS REQUIRED TO KEEP THE PROJECT FUNCTIONING (for non-income generating projects):

In recent years, locally designed and managed investment projects have assumed increasing importance as effective tools for sustainable rural development. Supporting local communities to conceive and implement their own projects – whether for income generating activities or for social investments – not only ensures greater ownership and commitment to those projects, but also strengthens the capacity of communities to contribute to and manage their own development. However, the increasing adoption of this approach by national governments, international financing agencies and rural banks has also highlighted the critical importance of providing adequate support and guidance to national technicians working with communities and other groups in identifying investment needs, defining potential projects, and developing them for external financing.

RuralInvest answers this need by offering a series of modules, developed over a number of years and tested extensively in the field, which provide such support through a range of materials and training courses, and include technical manuals, custom developed software and instructors' guides. Modules currently in use or under development include:

Module 1: Participatory Identification of Local Investment Needs

Module 2: Preparing and Using Project Profiles

Module 3: Detailed Project Formulation and Analysis

Module 4: Monitoring and Evaluation of RuralInvest Projects

An associated training course "Assessing Demand for Rural Investments" is also available to assist technicians to evaluate market and non-market demand for project outputs.

Module 2: Identifying and preparing project profiles

Module 2 draws upon earlier participatory needs identification work described in Module 1 to guide users in the creation and use of specific project profiles. Designed to be created together with the communities and individuals seeking project financing, the profiles help applicants to turn general investment ideas into concrete project proposals, as well as to understand the key elements of a project. Using simplified formats for defining project investments, operating costs and, where relevant, income, the profiles allow a first assessment of feasibility and provide the basis for the subsequent preparation of detailed project proposals.



Further information on RuralInvest or other FAO Investment Centre products and services can be obtained from:

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