



A Participatory Approach to Identifying and Preparing Small/Medium Scale Agricultural and Rural Investments

Introduction

In recent years, locally designed and managed agricultural and rural investment projects have assumed increasing importance as tools for sustainable rural development. Supporting local communities, private entrepreneurs or producers' associations to conceive and implement their own investment projects - whether for income generating activities or for social investments (local infrastructure and services) - strengthens local capacity to contribute to and manage its own development, while ensuring greater ownership and commitment to those projects.

However, experience in promoting local investment through government agencies, rural banks and international financing institutions, has also highlighted the critical importance of providing adequate support and guidance to national technicians working with applicants to identify investment needs, define potential projects and develop them for financing. Such financing can comprise a mix of local contributions, grant funds and loans and may derive from more than one funding source.

RuralInvest, developed by the FAO Investment Centre over more than 12 years, answers the need for support to local investment by offering a series of modules which have been tested and extensively applied in a wide range of developing countries, principally Latin America, Africa and the Middle East. These modules provide support through a range of materials and training courses and include technical manuals, custom developed software, user guides and instructor's materials (currently in English, French and Spanish, with other languages under development).

Depending upon their needs and current activities, user organizations and projects may benefit from some or all of the available modules, which can be adapted to their specific needs.

RuralInvest Modules

There are currently four RuralInvest modules:

Module 1: Participatory Identification of Local Investment Needs. Module 1 provides guidelines to assist local technicians working with communities and other rural groups to assess the natural resources, economic and social activities, institutions and infrastructures in the area within which the applicants live, and through this process determine their opportunities and constraints, future priorities and resulting investment needs. Where such community-level assessment work has already been carried out, or where applicants are primarily individual investors, Module 1 may not be necessary.

Module 2: Preparing and Using Project Profiles. Module 2 provides a simplified methodology and approach to facilitate the conversion of general ideas into specific investment profiles. Drawn up in the field with the direct participation of the applicants (whether individuals or groups) such profiles define the key characteristics of the project, help the applicants better understand the reality of the investment proposed - in terms of resources, costs and outputs - and allow both the applicant and the possible financing agency to assess the apparent feasibility of the proposal before committing resources for full project preparation. For investments involving no more than a few thousand dollars, the profile, typically running to 3-4 pages, may be sufficient to allow financing approval for the investment and the use of Module 3 would therefore not be necessary.

Module 3: Detailed Project Formulation and Analysis. This module requires the use of a computer and permits the preparation of a detailed project proposal that contains all information required to take informed decisions concerning the viability of the proposed investment. Many calculations - including the calculation of employment generation - are performed automatically. Key parameters can be pre-defined according to user agency needs, such as categories of investments, currency, types of beneficiary and environmental classification. The software calculates working capital requirements and annual cash flows as well as Net Present Value (NPV) and Internal Rate of Return (IRR).

The software can generate a variety of reports in either electronic or printed form. The complete report is typically of 15-20 pages, depending upon the complexity of the investment. The RuralInvest software is designed to be operable on the Internet through a secure site created by the user agency. However, given possible limitations in Internet access, the software can also be installed directly on the computers of field technicians who would then submit completed profiles and project proposals to their headquarters by e-mail, CD-ROM or USB drives.

Module 4: Monitoring and Evaluation of RuralInvest Projects. Subsumed within the Module 3 software, Module 4 provides for the aggregation of all RuralInvest proposals prepared by field technicians, and their tagging according to their stage in the project cycle (i.e. proposal, approved, investment completed, fully functional). Aggregated data can then be used to sort and identify projects for monitoring purposes (e.g. the total amount invested in livestock projects targeting medium-sized enterprises in a given region of the country). If investment proposals are subsequently updated with actual data from already completed investments which are functioning, the software can permit the comparison of the two stages of the project cycle and provide the basis for evaluating the performance of projects against initial projections.

Using RuralInvest to Improve the Quality and Relevance of Rural Investments

RuralInvest is applicable for any agency, project, organization or private investor managing funds for small and medium scale agricultural and rural investments, whether for income generation or for activities that contribute to rural quality of life without being profit-oriented (e.g. health clinics, environmental protection, access roads and bridges or potable water supply).

For investments of less than US\$5,000 - 7,000 (depending upon complexity), it will often be sufficient to advance only as far as Module 2, while Module 3 is applicable for investments as high as several hundred thousand dollars. Beyond this amount it is probably best to use experienced project design specialists.

In order to utilise RuralInvest effectively, the sponsoring organization must develop an in-house support capacity. Comprising as few as two persons for smaller users, but perhaps many more for

larger organizations, the personnel of the in-house support unit should be closely familiar with the RuralInvest system and provide a number of key services:

- **Define the System Characteristics:** Establish the basic parameters used in the RuralInvest software which are specific to the country and user group. This will include defining currencies, loan characteristics, maximum project durations, geographical zones and other features. These parameters can only be modified by the system administrator and distributed electronically to ensure the same basic parameters apply to all users;
- **Technical Support:** Offer technical support to decentralized and field staff needing guidance on the proper completion of RuralInvest profiles and proposals, particularly in situations which present new features not previously encountered;
- **Training:** Undertake periodic training in RuralInvest to both update the skills of existing staff and, in particular, to train new staff who must gain familiarity with RuralInvest to perform their functions appropriately. Given the frequently high levels of staff turnover found in many rural institutions/organizations, the establishment of this internal capacity is essential to avoid the relatively high cost of repeatedly using external trainers;
- **Quality Control:** Review RuralInvest investment proposals before submitting them to the finance committee or other group which will approve funding, in order to identify proposals inadequately prepared or with significant errors and help the relevant preparation staff to reformulate them;
- **Link to RuralInvest Design Team:** Act as a bridge between the developers of RuralInvest in FAO and the field staff, receiving and assessing updates to the modules and distributing them as appropriate to their users, as well as informing them of any problems or constraints encountered in using the system;
- **Monitoring & Evaluation:** In many cases, the in-house support group also takes on key monitoring and evaluation functions, and would then be responsible for preparing periodic monitoring and evaluation reports using Module 4 capabilities.

Establishing a RuralInvest Capacity

Currently, RuralInvest capacity is only supported for use by agencies, organizations or projects, **not for individual users**. In particular, the software can not be made available to individual applicants as training is required in its use. For all interested agencies/organizations the first step is to contact the local FAO office or FAO Investment Centre official to define their needs and estimate the cost of training, testing and adoption.

As noted above, not all adopting agencies will need all RuralInvest modules, and the first step for any organization is to decide which modules are of relevance for their operations. This decision will depend upon:

- ❖ The expected target beneficiaries: If only individual applicants are anticipated, Module 1 is not likely to be required. Nor may it be necessary if significant field work has already been undertaken with groups and communities to define their needs and priorities;
- ❖ The size and type of the likely investments which will be supported: If most investments are expected to have a total individual cost of less than US\$5,000, particularly if they will frequently comprise infrastructure and simple physical items (latrines, grain stores, shallow boreholes etc.) Module 3 may not be required. If the investments will often exceed US\$10,000, then Module 3 will certainly be required.
- ❖ The need for monitoring reports and evaluation support materials: If such tasks are considered important, then training for agency support staff in Module 4 will be necessary.

RuralInvest Establishment – Scheduling and Cost

Each module is adopted within the user agency/organization through a dedicated training course, ranging from 3-6 days per course, according to the module being taught and the total set of modules selected. While every effort will be made to meet the particular needs of the adopting agency or organization, a typical training and support schedule encompassing all modules would require approximately 3 discrete visits over a period of 3-4 months. Adoption of only some modules would shorten this period.

Adoption costs for RuralInvest will vary according to the modules selected, the location of the training site, and whether individual training units are combined. In all cases, it is the responsibility of the host agency or organization to provide training space, materials, and for Module 3 training, individual computers for all participants that meet the minimum specifications for operating the RuralInvest software¹. The host agency would also be responsible for transport, accommodation or meals for the students, if required. FAO will provide the instructors, training manuals and materials and, where relevant, computer software.

A complete course of training covering all four modules (presented twice) would thus be in the region of US\$ 75,000-90,000, while the exclusion of Module 1, for example, might reduce this cost to approximately US\$ 60,000-75,000. At the end of this period it is expected that the adopting institution will have approximately 30 trained technicians and be capable of providing all further training through its own personnel.

Generating Local Language Versions of RuralInvest

FAO is very supportive of adopting agencies or organizations producing versions of RuralInvest in national languages in addition to the English, French and Spanish versions currently available and those in Russian, Portuguese and Turkish currently in preparation. However, it should be recognized that the translation involved is substantial, involving four technical or user manuals across the entire range of Modules, plus the translation of all headings and help messages in the software. Fortunately, the software is set up so as to allow easy insertion of additional languages once the translation has been completed. Teaching materials will also have to be translated.

Contact and Enquiries

Further information about RuralInvest can be obtained directly from FAO through contact with the following persons.

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¹ This would include a **minimum** of a Windows 2000 operating system with internet browser, at least a 500 MHz CPU, 500MB of RAM and 200MB of available hard disk space. The RuralInvest software is built upon an open source platform and does not require any specific operating programmes beyond the internet browser.