RuralInvest>

A participatory approach to identifying and preparing small scale rural investments

MODULE 2

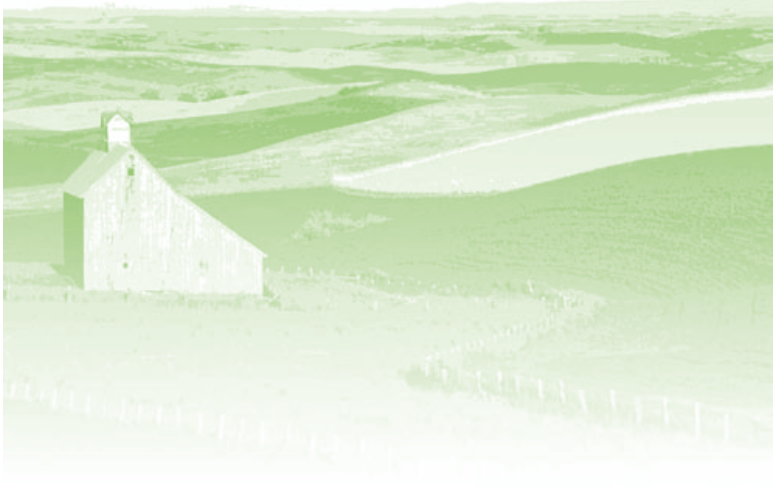
PREPARING AND USING PROJECT PROFILES

Rural Invest

A participatory approach to identifying and preparing small scale rural investments

MODULE 2

PREPARING AND USING PROJECT PROFILES



Investment Centre Division
Food and Agriculture Organization
of the United Nations

Rome, Italy
October 2007

The designations employed and the presentation of material in this information product do not imply the expression of any opinion whatsoever on the part of the Food and Agriculture Organization of the United Nations concerning the legal or development status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

All rights reserved. Reproduction and dissemination of material in this information product for educational or other non-commercial purposes are authorized without any prior written permission from the copyright holders provided the source is fully acknowledged. Reproduction of material in this information product for resale or other commercial purposes is prohibited without written permission of the copyright holders. Applications for such permission should be addressed to the Director, Investment Centre Division, FAO, Viale delle Terme di Caracalla, 00153 Rome, Italy or by e-mail to Investment-Centre@fao.org

© FAO 2007

Table of Contents

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 guidelines[1].

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 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 I – 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 RuralInvest, 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 RuralInvest 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 RuralInvest 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 RuralInvest 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, RuralInvest 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 re 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.).