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**ACTIVITIES OF THE  
UNITED NATIONS CAPITAL DEVELOPMENT FUND**

**IN THE  
WATER SUPPLY AND SANITATION SECTOR**

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**SOME BACKGROUND  
ON THE  
UNITED NATIONS CAPITAL DEVELOPMENT FUND**

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**AN OVERVIEW**

Established in 1966 by the General Assembly as an autonomous organization within the United Nations system, the United Nations Capital Development Fund (UNCDF) assists developing countries by supplementing existing sources of capital assistance by means of grants and concessional loans. A reorientation of the Fund in 1973 directed that it should serve as "a capital providing fund first and foremost for the Least Developed Countries in support of those development and investment activities that would build and strengthen the economic and social infrastructure of those countries, including in particular, in the fields of integrated rural development and small-scale industries."

Over the period 1966-1990, UNCDF has approved assistance amounting to \$678 million for 414 projects in 48 countries. Sectors of UNCDF activity are agriculture, water supply, transport, small-scale industries, shelter, health, energy and education. Most often, UNCDF country programmes are designed so that projects reinforce each other over time within a given geographic area. Operating under a partial funding formula which enables annual approval levels to exceed annual pledges, 1990 approvals reached \$78.1 million in new commitments, of which \$70.7 million was for 28 new projects and \$7.4 million for increases in existing project budgets. Annex 1 presents brief descriptions of the projects approved in 1990. 1991 approvals are expected to reach \$85 million.

Institutionally, the Fund, which finances multisectoral projects through annual voluntary contributions from governments, was placed under the Administrator of UNDP who performs the functions of Managing Director and the Governing Council of UNDP which serves as the Fund's Executive Board. Among the benefits from this arrangement, this placement allows the Fund to make use of UNDP's extensive network of field offices, many of which are supplemented by UNCDF through the provision of field officers who directly monitor projects. Since 1974, the Fund's operations have been directed by an Executive Secretary, currently Mr. Reinhart Helmke. Annex 2 provides an organizational chart of UNCDF headquarters staff with current key contacts.

## **SMALL-SCALE INVESTMENT**

UNCDF-funded activities are designed to bring early and direct benefits to low-income and other vulnerable groups, first and foremost in the least developed countries. Working at the grass-roots level, UNCDF projects are smaller (\$0.2 -- \$6.0 million) than those usually considered by other multilateral financing institutions. This small scale facilitates the rapid delivery of benefits to the poor within the limits of local absorptive capacities: custom-made approaches, which consider local socio-cultural and economic conditions and draw on substantial community participation, also reduce the financial and administrative burden on the central government administration. Small-scale projects can be, and have been, tailored to make best use of locally available talent, such as local contractors, community organizations or NGOs, as a basis for a whole range of development activities.

In this sense, UNCDF has clear advantages as a financing agency for small, innovative, locally-based projects designed to benefit the poor in the LDCs. In addition, UNCDF, in its ability to provide quick-disbursing grant financing, has a comparative advantage. The Fund is in a unique position to act as a catalyst in the planning and design of projects which would otherwise have problems in securing the necessary funding. This is particularly true in the "new generation" of projects in the water sector: projects which use a variety of technologies to provide service standards tailored to the ability to pay and which place great emphasis on the role of the community. In many cases, these projects depend on "learning by doing": beginning on a small scale and only gradually building up momentum.

The availability of "innovative" capital funding may be critical to launching such projects, since technical assistance agencies or NGOs are often unable to provide capital funds in the amounts required, while the major lending institutions have problems in accommodating the small initial stages of project financing in their lending programmes. Consequently, since the experimental character and the diversity of the operations are a function of the UNCDF mandate, advantage has been taken of this catalytic role: expanded programmes have often followed, with assistance from other external sources.

All UNCDF projects have to pass strict tests of financial, economic and social viability. Project selection criteria appear as Annex 3. UNCDF assistance aims at attaining maximum participation of the beneficiary groups and at strengthening local capacities for implementation and management, to ensure sustainability and to facilitate replicability of the projects on a larger scale.

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**UNCDF EXPERIENCE IN  
THE WATER SUPPLY AND SANITATION SECTOR**

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**AN OVERVIEW**

Providing access to potable water and improved sanitation is a major challenge to the Least Developed Countries (LDCs) whose scarce resources must be stretched to meet critical needs throughout the spectrum of economic and social activity. At the specific request of these countries, UNCDF assists them countries through the provision of capital inputs for economic infrastructure, income-generating activities and basic needs -- chief among them water supply and sanitation (WSS) schemes.

WSS occupies second place, behind agriculture, in UNCDF's multisectoral programme activities: about 20 percent of total UNCDF commitments are in this critical sector. Over the past 17 years<sup>1</sup>, UNCDF has devoted some US\$ 113 million of its resources to 71 small-scale investment projects in the sector, in 36 countries. Overall, its major focus has been on Africa (21 countries, 41 projects, \$ 62 million commitments). During the past five years, project approvals in the sector have averaged about \$ 9 million annually, slightly over half (51 percent) in Africa, 22 percent in Asia, and 27 percent in the Arab States and Latin America.

The Fund has concentrated on rural water supply although WSS also forms a component of each of its urban housing projects -- not counted in the above breakdown. A wide variety of technological interventions are made -- from production of rainwater tanks, or shallow wells equipped with hand pumps, to provision of drilling rigs and machinery for deep boreholes equipped with diesel-powered pumps. With respect to sanitation, the Fund has recognized the necessity of adopting approaches based on environmental conditions, population density and the social setting of the project area.

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<sup>1</sup> The first UNCDF project in the sector was approved in 1974.

## WSS EVALUATION

In 1989-90 a review of UNCDF work in the Water Supply and Sanitation sector was undertaken by outside consultants. The review found that, overall, projects financed by UNCDF had a positive impact on the beneficiaries, in terms both of providing better access to improved water supply and of improving the quality of life for rural people (especially women and children). However, shortcomings linked with a "hardware" approach were revealed. With experience, emphasis has been given increasingly to participation of the beneficiary communities, which provide both non-financial and financial support. As often as possible, local businesses are subcontracted for construction work, a factor which assists in strengthening national capacities. Such mechanisms become crucial in achieving sustainability.

## FOLLOW-UP

Weaknesses pointed up in the WSS evaluation were followed up through a number of actions. A seminar was conducted in October 1990 which brought together UNCDF programme staff with representatives of the Global Consultation on Safe Water and Sanitation for the 1990s, UNICEF and UNDP/DGIP. One outcome of this seminar and evaluation has been a new commitment to seeking assistance from the Collaborative Council in identifying co-financing and /or technical assistance partners for WSS projects. A list of projects from UNCDF's pipeline in the WSS sector is duly attached as Annex 4. In addition, UNCDF has strengthened its cooperation with the UNDP/WB WSS Programme Regional Groups.

Finally, in-house capacity will be enhanced through the addition of an infrastructure specialist who will concentrate, inter alia, on WSS and through increased attention paid to key issues explored in the WSS evaluation, as contained in the following summary. It finetunes to the WSS sector the steps in the UNCDF project cycle, pointing out most of the crucial do's and don't's. Since the UNCDF project cycle (Identification, Formulation and Appraisal, Implementation and Evaluation stages) may differ from that of other organizations, a detailed outline of the various stages is provided in Annex 5.

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**SUMMARY OF KEY OPERATIONAL ISSUES  
FOR THE UNCDF PROJECT CYCLE  
IN THE WATER SUPPLY AND SANITATION SECTOR**

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**1. PROJECT IDENTIFICATION**

During the UNCDF Planning and Project Identification Mission (PPIM) fielded prior to establishing a new programme in a given country, vital preliminary information should be gathered concerning the objectives, the broad design and the likely feasibility of conventional UNCDF water supply projects and the scope for involvement in more innovative areas if projects in the sector are to be considered for financing. Below is a checklist of areas to be scrutinized.

**1.1. Conventional Rural Water Supply Interventions**

**Problems and Solutions**

A preliminary assessment should be made of the nature of the problem(s) to be solved and indication of a range of possible approaches. Normally, the statement of a problem -- for example, inadequate water supply or a high infant mortality rate -- should generate a whole range of possible solutions (technical to non-technical) from among which the most feasible will eventually be selected in the course of project formulation. Experience has shown that mis-identification of the problem can indeed occur and lead, almost inevitably, to project failure. Such was the case in a borehole maintenance project in Malawi, wherein severe siltation problems were mistaken for poor maintenance.

**Institutional and Policy Context**

- Identification and preliminary assessment of national and local institutions in WSS.
- Assessment of related sectoral policies and assistance programmes: public health education programmes; donor activities in water, sanitation, public health fields; related appropriate technology R&D; etc.
- Assessment of policy and macro-economic factors: policies toward cost recovery;

policies toward decentralisation of installation and maintenance responsibilities; availability of foreign exchange for import of spare parts, fuel, etc.

### **Preliminary Indication of Beneficiaries**

Broad definition of the area(s) and population(s) to be served, with careful scrutiny of the realism of any Government proposals in this regard.

**POTENTIAL PITFALL** Special attention is needed to avoid targetting overly large areas/populations or communities/areas where density is too sparse. A review of projects shows that the areas or villages to be served were usually determined by the Government, with selection rarely based on any objective criteria.

## **1.2. Scope for Innovative WSS Projects**

- Manufacture of Pump Components and other Hardware (e.g. water dispensing devices<sup>2</sup>)**
  - Assessment of future annual volume of donor and government financed pump or standpipe installation or replacement programmes (nationally, and also in neighbouring countries) in relation to minimum viable production level;
  - Identification of local engineering industry enterprises and preliminary assessment of capacities, management and viability;
  - Assessment of foreign exchange availability for import of materials;
  - Identification of banking or other institutions as possible channels for credit.
  
- Urban Water Loss Reduction**
  - Investigation (with municipal Water Supply Corporation) as to extent of water loss through (i) physical leakages and (ii) "administrative" leakages, and of related water supply shortages and areas/population affected by latter; where either sort of loss is serious, identification of options (system repairs, diagnostic or measuring equipment, training, etc.) for remedy and assessment of water savings possible; preliminary assessment of overall management and institutional capacities, problems and viability of the WSC.
  
- Sanitation Programmes**
  - Preliminary identification and assessment of ongoing sanitation programmes, their targets and resources, and of any gap in capital resources compromising target achievement.
  
- Evacuation of Sanitary Facilities**
  - Preliminary identification of O&M problems faced by Urban Sanitation Department, particularly in the periodic emptying of latrine sewerage pits. Preliminary assessment of extent to which these problems are due to inadequate or inappropriate emptying equipment and/or to procedures for recovering emptying costs.

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<sup>2</sup> Possible devices are vandal proof faucets with automatic shut off, to reduce wastage and revenue loss at public standpipes, of which little publicised prototypes have been developed, such as the Fordilla or Robo valve.

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- Aquaculture Based on Human Waste**
- Identification of possible areas/sites where waste water is available, and of locally appropriate aquaculture technologies;
- Preliminary assessment of (i) local entrepreneurial interest and capacity and local cultural constraints, (ii) markets for aquaculture output and (iii) capital/credit and TA requirements and of local institutional channels for their provision.

### **1.3. Emphasis on Pilot or Model Role of Project**

The PPIM should endeavour to conceive the WSS project as a model from the outset: i.e. as a project which embodies a new approach to widely recognised problems, or which targets a hitherto little recognised problem. In either case, project identification and subsequent project formulation and implementation should be undertaken with a view to securing the commitment of both Government authorities and bigger donors to engage in larger scale replication and follow-up once the success of the approach is demonstrated.

## **2. PROJECT PREPARATION: ISSUES FOR FORMULATION & APPRAISAL**

### **2.1. Reassessment of the Water Supply and Use Problems**

- Nature of Supply Problems:** Inadequate yield of existing sources? Inadequate quality of existing sources? Nature and origin of contamination? Excessive distance of existing sources? Seasonal aspects of these problems?
- Nature of Use Problems:** Inappropriate storage of water in the home? Inappropriate use of water? Unsanitary disposal of water?
- Related health problems:** diarrhoeal and other disease incidence? Seasonal aspects?

### **2.2. Determination of Beneficiaries**

Several projects suffered from the lack of clear selection criteria for areas, communities and populations to be targetted.

**EVALUATION LESSONS.** The project area was so large relative to the number of boreholes in a rural water supply project in Uganda that no evidence was found of improved supply from source to user group. In Samoa (Village water tanks, SAM/81/CO1), the primary beneficiary group was improperly identified by the Government. This led to designing water tanks of the wrong size and which could not be marketed to other groups. The project had to be suspended and the tank redesigned. This could have been avoided by setting up an application, screening and deposit procedure. In a rural water supply project in Guinea-Bissau (GBS/83/CO1), the beneficiary group was identified as those living in villages of 30-150 people. Instead, because access to dispersed villages was too difficult, the project ended up serving several towns of 12,000 to 13,000 people. This could have been avoided by incorporating more

realistic goals into selection criteria; for example, by deciding to serve small villages closer to roads and within designated service areas. A project designed for small rural villages should be very different from a project designed for towns, particularly because of the consequences of not incorporating a sanitation element for denser populations. In Nicaragua (NIC/80/CO1), the areas served by a UNCDF rural water supply project were so dispersed that project operation and maintenance was of a lower standard than that normally achieved by other villages under the Government maintenance programme.

### **2.3. Essential Information**

#### **Socio-Economic Surveys**

Preliminary studies are necessary in order to determine not only the need but also the effective demand for services as well as the social and cultural context into which the services will be delivered.

- Village and population surveys** are needed to provide data on population, household size, growth rates, sources and levels of income, health indicators, literacy and skill levels, village organization and any other factors that may affect or be affected by a project.
- Water use surveys** should be carried out to determine current consumption levels, existing sources, containers used to carry and store water, the uses to which water is put and how this would change if more were available. Careful enquiries should be made to elicit information on present individual household and community beliefs and practices concerning defecation, personal hygiene and excreta disposal. This is a complex and sensitive topic which will have a major effect on the acceptability of different sanitation designs. Such a study must be carried out by trained people who should also explore the prevailing level of knowledge about the relationship between disposal, hygiene and disease transmission.
- Service standard surveys** are needed regarding the acceptable or minimum required service levels to be provided and tolerable distances of access: house connections; yardtaps; street/neighbourhood standpipes; village wells; etc. The service level for water supply on UNCDF projects is primarily public taps, although about one-third of the projects have included house or patio connections. There are various rationales to justify the presence or absence of the higher standard, or ensure that, where two service standards are offered, the beneficiaries of the higher standard pay the incremental cost of development or service. But these have not always been applied consistently.
- Demand surveys** are needed to assess the community's willingness to pay -- to be used to judge the appropriateness of the possible technical options given their different O&M costs.

**EVALUATION LESSONS.** Analysis of these surveys should avoid over-optimistic estimates of beneficiaries and village population. In Burkina Faso, the lack of an in-depth socio-economic survey of the project area led to later problems as it did in Ethiopia, where failure to account for livestock demand left inadequate supplies for people. In Nepal, social surveys would have helped to ensure the design of a more appropriate latrine, and estimates of the likely number of

users would have resulted in the adoption of larger pits. In Samoa, the lack of socio-economic surveys left no basis for the analysis of demand or the ability to pay for water tanks. While this has affected all of the water projects discussed in the WSS evaluation, in Samoa, where the product entailed a specific water tank to be purchased by households, the impact was more noticeable and the project had to be suspended until modifications could be made.

### Hydrological Surveys

#### Water Source Availability

If the water sources proposed for development will not produce enough water to meet demand, projects obviously cannot meet the test of feasibility. This should be investigated before the project is implemented, not discovered afterwards because of lack of demand analysis, hydro-geological investigations, flow measurements or design errors that limit system capacity.

Flow measurements may be taken but still fail to produce valid results. Of course, without a reasonable demand projection, there is no way to know what the flow must be to meet demand.

**WARNING.** Investigations take time. It is not uncommon for measurements to be taken only once, at whatever time the need for numbers is identified by the project. Unfortunately, unless measurements are taken in the **dry season**, the yield of the source will probably be overestimated. In the dry season, groundwater levels decline; and springs and streams may disappear. Boreholes drilled on the basis of information gathered during the wrong months may not be deep enough to capture water in dry periods.

#### Water Source Quality

Since an objective of UNCDF WSS projects is to substitute improved water sources for contaminated or dry traditional ones, potential new water sources should be **tested** before development, **protected** from contamination after development and **monitored**. In designing the new project in Haiti, special attention has been paid to water quality control; however, only 7% of the UNCDF projects appeared to have bacteriological water quality testing before development, and no sources received chemical analysis. Constraints to bacteriological tests have been the absence of ways of transporting samples to laboratories for analysis within an acceptable period or the absence of in-country laboratories.

**EVALUATION LESSONS.** A particular irony in how surveys are used (when they are carried out) can be seen in the cases of the Sierra Leone and Lesotho water projects. In both projects, the village preference for water source location was used. This often stems from an understandable desire to avoid expending time and energy looking for better sources; it is also tempting to assume that the villagers are the best judges of the appropriate source location (-- although if this were true, of course, the villagers would not have to be taught about contaminated water). The irony is that this may be the only time the people are consulted during the design process, and yet, unless to supplement other tests, it is the wrong time to do it. As it is, village preference is often used in place of other badly-needed investigations.

**WARNING.** In many cases, systems were not flushed and disinfected after construction, and monitoring on a consistent basis is almost non-existent. (This is also a measure to be remembered for project implementation/operating procedures.) The belief prevails among both local and foreign engineers that water from a protected source, once flowing within a system, remains protected. However, small design and construction flaws, seemingly minor, can make the difference between a protected or an unprotected source. Systems that operate on an intermittent basis, either by design or by default, are quite susceptible to contamination.

#### **2.4. Assessment of Options**

The existence of a single solution to the problem(s) identified is extremely rare. Normally, the possible options range from physical interventions, such as improvements in water supply quantity, availability and reliability, or the provision of new or ungraded latrines to "software" interventions, such as hygiene education or other approaches intended to encourage better health-related behaviour. In between are various primary health care approaches which may contain various proportions of software and hardware.

In almost every case a **package** of interventions should be considered, tailored to the particular problems in the project area. While there is as yet no methodology for optimising such a package for maximum cost-effectiveness, there is strong agreement among sector professionals that a mix is needed. A single intervention will not have the desired results.

The preferred mix will generally require a co-ordinated framework of technical assistance and capital assistance. One must study to what extent some aspects of technical supports such as training for beneficiaries, should be financed by UNCDF and implemented perhaps through NGO execution.

The preferred mix, to be successful, will generally include several of the following components:

- Improved water supply;
- Water use education;
- Hygiene education;
- Sanitation;
- Institution-building;
- Community and women's participation;
- Operation and maintenance;
- Cost recovery;
- Training.

#### **Analysis of Alternatives**

Most of the problems found in UNCDF projects can be traced back to superficial technical analysis and subsequent improper identification of technology requirements rather than to a

disregard for appropriate, low-cost technology itself. Yet the choice of appropriate technology is particularly important in developing countries, where affordability, and ability to operate, maintain and replace parts can be critical to project success.

**Technical alternatives** must demonstrate: (a) that they can solve the problem of inadequate, unsafe water or unsafe waste disposal, and (b) that the alternative selected can do it better than others that can also solve the problem. Technical feasibility depends on the availability of an adequate source to meet the estimated demand, the ability to move that water from where it is to where it is needed, and to treat, store and distribute it as required. All reasonable technical alternatives and their combinations should be identified. Thus, for example, competing options may be ground versus surface water (e.g. lining of reservoirs) or rehabilitation versus new source development. Similarly, alternatives to meet health objectives might include various combinations of hygiene education, sanitation, water supply or primary health care.

**Software Alternatives.** Software analysis will logically suffer from the same faults as the technical analysis, as discussed above. However, a more important cause of difficulties seems to be that neither UNCDF nor its partners (especially local NGOs) may have the leverage to ensure adequate software support for the project. For UNCDF, a particular problem is its stricture against financing training and institution building, which must then be delegated to some other agency. For example, tariff setting or institutional restructuring are often critical elements in putting the WSS sector on a sound footing, but they are matters of government "macro" policy. In other words, such objectives are unlikely to be achievable within the small scale of a UNCDF project, unless it is conceived from the outset as a model for sector development and accepted as such by both the country sector institutions and international donors.

Failure to make explicit comparison of alternatives assumes that the best way to do things is already known. The purpose of developing several alternative options is to subject them to a preliminary assessment process that produces the best result for the conditions. The selected alternative should still be further analysed relative to specific physical, social, economic, financial, institutional and environmental factors.

**EVALUATION LESSONS.** In the past, however, UNCDF projects have almost never included an analysis of more than one alternative, which usually has been the one proposed by the Government (or UNCDF) based on "previous experience". A common comment made by evaluation missions is "Not enough effort went into developing alternative methods and designs" (MLW/79/CO3). This is echoed in Ethiopia, Somalia, and Nicaragua. Only 14% of the projects had any analysis of technical alternatives as groundwater and surface water options were compared. In the Samoa project, the tank design was changed as a result of UNDP's intervention. In these cases, however, the design was often changed after the original one had been selected; for some reason the change in the technical alternative failed to trigger a reassessment of the entire work plan, so that manpower and equipment requirements were no longer appropriate.

For example, if the depth to groundwater has been underestimated in measuring the source, the wrong kind of drilling equipment will be brought in: deeper wells need different equipment. In Guinea-Bissau, a Dando 250 drilling rig proved beyond the ability of the local team to operate, and has gone unused. Meanwhile, the drilling rigs being used are inappropriate for

their purpose. In Gambia, the compressors, diesel generators and submersible pumps were found not to be suitable, as was the main drilling rig in Ethiopia. According to the evaluation, technology used in Nicaragua is still oriented toward conventional "urban" solutions and should be re-examined. The use of electric pumps under conditions of fluctuating current damaged parts that are unavailable within the country and impossible to import under current conditions.

Finally, even in cases of rehabilitation, where a history of problems exists, the causes of those problems may not be identified in such a way that it affects future designs. Instead, the problem is simply seen in terms of poor maintenance, and new projects of similar design are built.

### **Selection and Description of the Preferred Option**

Technical solutions and designs should be finalized as part of an interactive process that incorporates factors such as economic, financial, institutional and social feasibility. A project should be considered feasible if (a) it makes the best use of society's resources and there is no alternative that would serve more people at a lower real (economic) cost, (b) operation and maintenance can be paid for, (c) it does not exceed the available institutional capacity, and (d) it will be socially acceptable to those intended to use it. Design cannot be separated from these other aspects. The assessment of technical options must therefore go hand in hand with the Economic, Financial and Social Analyses (see below), rather than precede them.

These latter exercises are not academic questions that should be waived at will, or for lack of time, or that are merely to be tacked on to the end of a Project Document. For example, it is common to diagnose operation and maintenance problems in terms of local skills and resources. But many operation and maintenance problems can be traced back to poor design and construction. Where systems are designed with ease and lower costs of operation and maintenance in mind, better functioning systems will then be the result. The present framework of the formulation process of UNCDF and the guidelines for project analysis is fully adequate to take care of these concerns: but it must be enforced in the WSS with greater rigour.

Some projects evaluated were found never really to have developed the nature of the technology proposed. Such was the case in Gambia, where systems were left undefined. This lack of design meant that no cost estimates were developed and that the wrong equipment was purchased.

Technical definition will also allow more realistic estimates of the future operation, maintenance and periodic replacement cost implications, and of the implications for training local personnel, and for the procedures and logistics for both community and Government institutions involved.

### **Sanitary Facilities: Some Design Considerations**

Designs should meet certain hygienic, maintenance and social standards, including provision for:

- ventilation;
- washable floors;
- stability, including pit lining and concrete foundations;
- potential for relocation (appropriate scaling);
- sources of light;
- privacy;
- comfort.

## **2.5. Feasibility Analysis**

Establishing feasibility is an interactive process, going together with the assessment and selection of options. The findings of each analysis should feed back into the others, resulting in modifications that will produce the best project under the circumstances.

### **Economic Analysis**

UNCDF channels its resources to bring direct benefits to lower income groups, mostly in the rural environment of the LDCs. These projects meet, often on an emergency basis, the most basic need -- water. The social benefits thus accrued cannot as a rule be brought within the economic framework of a conventional cost-benefit analysis. However, there are issues which require economic analysis. These are some examples where economic analysis would have been useful on UNCDF projects:

1. The most cost-effective (least-cost) way to achieve project benefits (to reach effectively the most people with the resources available).
2. Demand analysis to determine willingness to pay for different levels and standards of service to be used to size facilities at a cost that can be recovered.
3. Economic analysis of technical alternatives, such as shallow wells/hand pumps, or boreholes.
4. The area and village size to be served that permits the greatest number of poor people to be served for the least cost: For example, villages of 200-400 people in one district, versus highly dispersed villages of 100-200 in a region (that is, making an analysis of economies of scale while still serving the same target group).
5. The comparison of an unconventional and a conventional technical alternative. The cost of a more conventional technical alternative that would provide the same benefit should be analyzed (essentially the provision of additional storage capacity in reservoirs as part of a public water system). Included in the costs of each alternative would be the annual recurrent costs of operation and maintenance. It would also be appropriate to use shadow-pricing to reflect, for example, the high cost to the economy of imported materials used on a public system, and the low cost of local materials and labor used for household-level storage. The analysis would show, for capital and recurrent costs, the economic cost per cubic meter of water delivered under each

alternative. For instance, in the case of the Samoa project where questions have been raised about the high cost per tank, the rainwater tank option is also characterised by its very low recurrent costs, relative to those of a public storage and distribution system, and thus would probably be a more attractive alternative than a superficial analysis would suggest.

### **Financial Analysis: Are UNCDF Projects financially sustainable?**

Finding technical and economic feasibility means that (a) the proposed project will solve the problem and (b) it should be undertaken because it provides more benefits to society than it costs. The financial analysis serves the purpose of determining if there is enough money to pay for it, who will pay and what mechanism will be used to do this.

The availability of UNCDF grant money to construct the project ensures payment of the capital cost and leaves the costs of operations, maintenance, and replacement to be recovered. If no way can be found to finance these annual costs, then, as a rule, the project should not be undertaken. There is no value in using scarce resources to construct facilities that will not work. The physical system is only the delivery system for producing benefits.

A final analysis directed toward the issue of cost recovery for project sustainability should include the following minimum components:

#### **For the village or system**

1. Estimated operation, maintenance, and replacement (OM&R) costs per year per system or village, including salaries, fuel, tools, materials, spare parts and depreciation.
2. The number of households receiving services.
3. The fee per household per month necessary to recover OM&R costs per year, differentiated according to service level.
4. Estimated annual household income and analysis of the ability to pay the monthly household charge.
5. Methods of fee collection (and means of dealing with late payers and defaulters).
6. Fees and revenues from public taps.

#### **For the Government**

7. Recurrent costs to the Government budget for national, provincial, and district level agencies and operations supported or expanded under the project, covering a three-to-five-year period after project completion, and an assessment of Government ability to make the necessary annual allocations.



8. Tariff policies that set the basis for fees charged and revenues generated.

What are the reasons for carrying out this simple analysis and what implications does it have for projects?

Each system should have estimates of recurrent costs made at the time of preliminary design. This will show the engineers the continuing cost burden of their design and permit them to make modifications or consider a different technical alternative with, for example, a higher capital cost but a lower operation and maintenance cost. The annual costs, and the anticipated monthly fee per household to recover them, should be presented to the water and sanitation committee or to a village meeting for discussion along with the design itself. This allows the village to decide if it can afford to maintain the project, and is the beginning of a process of refinement to reach a match between technical design, financial cost, and community preference. The simple mention of a tariff or cost recovery policy will not itself translate into monies being in the right place at the right time to sustain the benefits of the project; indeed, when a recurrent cost estimate at the village level is not done, the villagers have no idea how much to collect.

### Environment

Past UNCDF projects largely ignored the environmental consequences of implementation, even when these could be quite severe (for example, provision of water with no corresponding measures for removal of wastewater; no examination of the possible consequences of depleting aquifers). It is vital to examine potential damage and to provide "environmentally friendly" designs. Steps should be taken to consider such mechanisms as surface drainage structures, well sealing, fencing (live or otherwise) around water points, separate washing facilities, animal drinking troughs, etc., as appropriate.

### Institutional Analysis

At the project formulation stage, careful review should be made of the implementing institution's capacities and procedures for carrying out the various tasks entrusted to it (identification of appropriate beneficiary groups and assignation of priorities; planning and execution of construction programmes; procurement of materials; training; monitoring; etc.).

**WARNING.** On many projects such assessments were not made in advance, but UNCDF has tried to remedy the situation as problems emerged. For example, in Botswana, recommendations were made during the formulation process to hire and train management, whereas in Malawi the absorptive capacity of the institution was considered adequate. In both cases, the number and skills of counterparts were found to be inadequate during implementation, but efforts were made by project-recruited experts to train national staff on the job. Whatever the difficulties involved, it is important not to displace national sector expertise and decision-making by taking control of day-to-day operations.

**Issues to be addressed:**

1. How is the institution organized and where does the project fit into its operations?
2. Does the institution have the required management capability?
3. What kinds of technical assistance can be provided to improve performance in the areas needed?
4. Does the institution have sufficient absorptive capacity to incorporate the new activities, or is it already stretched too thin?
5. Are there enough people with the particular skills to fill the roles needed on the project?
6. What kinds of training should be incorporated to strengthen the institution, as well as to provide the skills needed during project implementation and operation?
7. What types of relationships exist or need to be established between various governmental agencies and levels of organization in order to co-ordinate all project activities?
8. What types of relationships exist or need to be established between various governmental agencies and levels of organization in order to co-ordinate all project activities?
9. How can the project activities be used as a model for future government projects?
10. How should project activities be phased with training programs to improve skills?

**2.7. Overall Plan of Operations and Timetable**

Ideally, a plan will not only identify all the components that must be included (directly or indirectly), but will also lay out the sequential measures and resources required for implementation and sustained operation. This exercise will further identify gaps in resources (for example, inadequate number or skill levels of local technicians to implement the project) or information (such as hydrogeological data or village census information). Ways in which to remove constraints, such as technician training, or fill data gaps, such as hydrogeological studies, can then be incorporated into the project.

**3. PROJECT IMPLEMENTATION**

**3.1. Relationship with Partners**

Given its limited staff resources UNCDF relies heavily on the efforts of other agencies over which it has little or no influence. These partnerships have been characterised by a number of problems:

- **Diluted identity:** UNCDF can become merely another source of concessionary funds at the disposal of the partner, so that UNCDF's special characteristics and advantages are lost.
- **Inadequate technical analysis:** UNCDF does not have in-house sectoral expertise to make a full technical evaluation of every project with which it is concerned, and relies to a large extent on its partners for software implementation. They proved to have their own limitations. But, in the end, UNCDF is likely to be blamed.
- UNCDF project activities may have low priority for the partner agency, and when the latter faces its own resource constraints, they may be relegated to the bottom of the list.

In this respect, the implementation of tasks to be undertaken by other agencies could be ensured, for example, by **tying disbursements to satisfactory performance.**

### **3.2. Management Information**

Reporting, monitoring including accounting procedures concerning the construction, operation, and utilisation phases should be defined and improved if necessary.

The primary problem reported was the **lack of accurate cost data** to be used to improve the original cost estimates. In many cases, cost estimates for new projects continued to reflect the same errors as old ones, rather than incorporate real project experience.

Information should also be generated in the course of implementation to allow for more meaningful evaluation of project achievements and impact. Such information would concern water system operation performance, water use habits, health factors, etc.

UNCDF's limited manpower resources limit close supervision and monitoring of project execution. Reporting both by UNCDF's partners and the recipient agencies is often weak. In consequence, UNCDF must give these projects the close attention that is essential if mid-course corrections are going to be made when needed. **Increased use of supervision missions by outside consultants** is therefore advisable.

### **3.3 Increased Use of Existing Technical Resources**

Greater use could be made of existing technical expertise in the WSS sector to support UNCDF project implementation. See 5. below.

#### **4. PROJECT EVALUATION**

Terms of reference of evaluation missions should:

- i) Be specific on the technical issues to be dealt with (e.g. reliability, yield, O&M of wells) and encompass related social factors (convenience, usage, hygiene education, community participation, etc.);
- ii) Earmark enough time for carefully structured field visits;
- iii) Be undertaken by a multi-disciplinary team where the project size justifies it;
- iv) Be preceded by baseline pre-project and after-project surveys to determine project impact on the health conditions in the area;
- v) Examine changes in habits of water storage, use and disposal, and of excreta disposal. (A majority of the evaluations note that habits have not changed, and that, in some cases, people continue to use traditional water sources for purposes that could be better served by the project.)

#### **5. REINFORCEMENT OF RESOURCES AT ALL PROJECT STAGES**

If UNCDF projects in the WSS sector should be designed and implemented such that they satisfactorily take account the array of issues discussed above, then UNCDF will itself need access to greater technical expertise than it currently possesses. Such reinforcement may be gained in several ways.

**Enhanced in-house capacity.** (i) Ideally, addition of a specialist technical adviser, conversant with technical, institutional, financial and economic issues of the WSSS. (ii) Short training sessions, seminars, etc., for UNCDF staff to familiarise them with key issues and to enable more critical judgement and knowledge of types of expertise needed. (iii) Development of model Terms of Reference, Operational Guidelines, and building up of sound Consultant roster.

**Improved Collaboration with other Agencies.** Establishment with other donor or technical agencies of joint project teams for the formulation and implementation stages (to replace the present "vertical" division of project involvement by these agencies).

**Regional Water & Sanitation Groups.** A special case of such collaboration would be greater involvement of the specialised Regional Water and Sanitation Groups established at Abidjan, Nairobi and New Delhi under the aegis of the UNDP/WB W&S Decade Programme and supported by numerous other donors. Contact should be established with these technical units at the PPIM phase (where WSS sector involvement is planned), and later by the project formulation team. The RSWGs could then subsequently be involved to some degree in technical backstopping of project implementation.

The aim of such increased collaboration is twofold. First, simply to increase the technical expertise input in UNCDF projects; second, to ensure wider contacts with other funding agencies, to encourage both greater co-funding and greater prospects for funding of larger follow-up projects to the necessarily limited, pilot projects funded by UNCDF.



ANNEX 1

UNCDF PROJECTS APPROVED IN 1990

COUNTRY	PROJECT TITLE	COST (US\$M)	PURPOSE
I. AFRICA			
Burkina Faso	Seed Multiplication in the Sahel Region	1.3	To establish a multiplication system, including support facilities, for a variety of improved seeds and to increase their yields. The project will construct storage facilities and provide equipment, vehicles and revolving funds for agricultural inputs and seed distribution.
Burundi	Low cost Housing in Kanyosha	1.7	To contribute to the first large-scale development operation of ECOSAT through the development of 2,286 housing plots and public facilities. Credit for self-help construction and local artisans will also be provided.
Comoros	Rural Electrification	2.5	To improve the living conditions of some 47,500 residents of 22 villages on the islands of N'gasidja and N'dzouani islands by extending electricity and basic public lighting to the islands.
Ethiopia	Rural Access Roads for Fuelwood Plantation Project	3.4	To provide access to the plantation sites of an UNSO-funded project aimed at reforestation of eroded lands and improving agriculture with agro-forestry and sylvopastoral systems. The roads will also open up markets and trigger a shift from subsistence to commercial farming, thereby improving household income.
	Low-Income Housing Programme in Lafto	5.3	To upgrade and develop the Lafto low-income neighbourhood of Addis Ababa by providing public infrastructure including roads, drainage system, water and sanitation facilities and electricity supply. The project will also provide self-help construction loans for the construction of 1,500 housing units.

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COUNTRY	PROJECT TITLE	COST (US\$M)	PURPOSE
Mauritania	Rehabilitation of Small Dams	0.6	To increase food production through flood-recession farming by repairing 3 small dams and rebuilding one. Dune fixation upstream will also be undertaken through reforestation and the plantation of hedgerows.
Rwanda	Agricultural Development in the Prefecture of Gikongoro	4.7	To contribute to the large integrated agricultural development programme jointly financed by the Government/IFAD/UNDP. The project aims at intensifying agricultural production, improving living conditions, improving/constructing feeder roads, providing credit facilities to artisans, women and youths, and supporting private entrepreneurship.
Rwanda	Gaculiro-Kigali Low-Income Housing	3.4	To improve living conditions for lower-income families in Gaculiro area by developing 46 ha into plots suitable for construction of up to 2,000 houses. 100 model houses will be constructed and housing credit will be provided.
Sao Tome and Principe	Support to Small Farmers	0.7	To rehabilitate the Mesquita Centre and strengthen its capacities through construction of a central storage facility and a mechanical workshop, and provision of equipment and vehicles. 75 ha of irrigated land will be rehabilitated and revolving funds for canal construction, other land improvements and agricultural equipment will be provided.
Senegal	Small Business Promotion	2.1	To establish a credit facility for small business operators in the region of Dakar, with NGOs and consulting firms serving as intermediaries between the borrowers and the implementing agency.
United Republic of Tanzania	Zanzibar Feeder Roads	4.3	To facilitate economic development in Zanzibar by reconstructing a total of 86 km of feeder roads.
	Micro- and Small Enterprises in Mwanza	1.2	To provide seed capital for loans to approximately 5,000 micro- and small entrepreneurs, either small groups or individuals, who are identified, supervised and recommended by seven participating NGOs.
	Small-scale Irrigation at Pawago	1.2	To introduce and demonstrate the effectiveness of small-scale traditional low-cost irrigation schemes as a means to secure food self-sufficiency. The project will upgrade an existing canal system, strengthen both the Irrigation Division's and the farmers organisation's capacities to operate and maintain the schemes.
Togo	Support to Village Groups in Eastern Savannah Region	4.9	To increase food production and introduce cash crops by constructing a dam and developing downstream 130 ha of land, building three small village dams, and constructing 170 km of feeder roads to benefit about 6,900 farm families.



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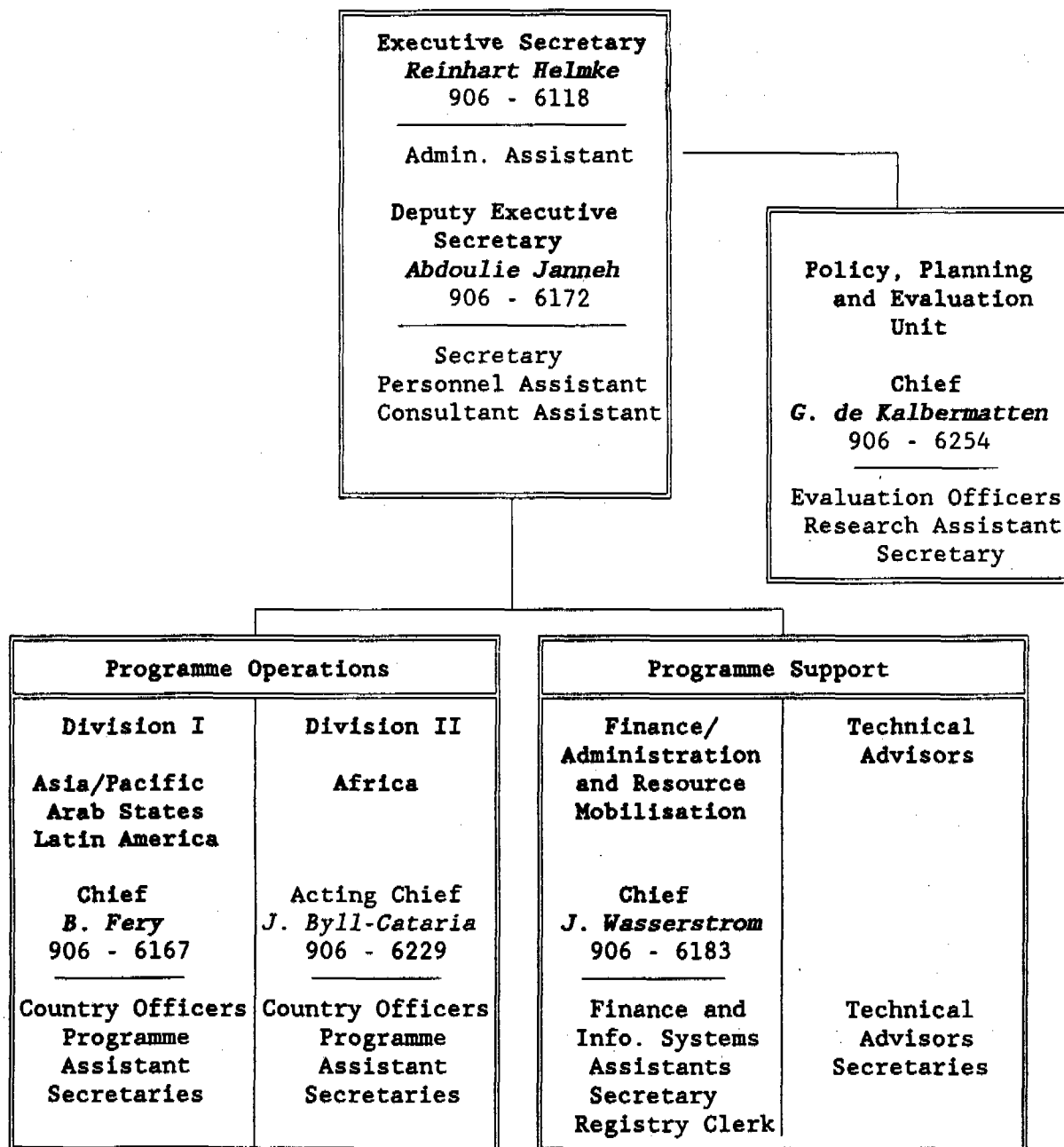
COUNTRY	PROJECT TITLE	COST (US\$M)	PURPOSE
<b>II. ARAB STATES, ASIA &amp; THE PACIFIC AND LATIN AMERICA</b>			
Bhutan	Agricultural Credit Extension	1.5	To increase and modernize agricultural production through the expansion and improvement of the Agricultural Credit Programme introduced under earlier UNCDF credit projects. Credit will be provided to an additional 3,000 small-scale farmers.
	Warm Water Fishing	0.8	To facilitate fish farming activities in Samdrup Jongkhar and Gaylegphug by providing seasonal and short-term credit to 300 farmers, and equipment and vehicles for the conservation, handling and transport of fish.
Bolivia	Escona Irrigation	2.5	To increase and diversify agricultural production. Activities include the construction of dams and irrigation system covering 286 ha, the reforestation of 300 ha in the watershed of the reservoir, the improvement of existing crops and the introduction of new cash crops and commercial dairy production.
	Oruro Water Supply and Sanitation	5.0	To increase water supply and sanitation in Oruro city. The project will drill 10 new wells and provide water and sanitation connections including sewage treatment facilities to 86,500 people in the Eastern and Southern sector of Oruro.
	Alpaca Wool Production and Processing	3.4	To increase annual fiber production per animal of some 50,000 alpacas and to establish an alpaca fiber pre-processing plant. Transportation equipment and revolving credit funds for pasture improvement, animal health and genetic improvement will be provided.
Djibouti	Low-Cost Housing in Balbala	3.6	To improve the living conditions of low-income population through development of basic public infrastructure in a 37 ha site to accommodate 1,390 low-cost housing units and provision of in-kind housing loans to 770 low-income families. Development of small-scale enterprises in the housing construction sector will also be promoted.
Lao People's Democratic Republic	Small Irrigation Schemes in Luang Namtha and Oudoxmay Provinces	3.3	To increase rice production by 10-20% and to reduce slash-and-burn cultivation method by rehabilitating 600 ha of traditional irrigation schemes and constructing 600 ha of new ones. A credit facility and a community development fund will also be established.
Somalia	Rural Credit, Phase II	3.2	To increase agricultural production in the Middle and Lower Shebelle Regions by providing credits to small farmers for agricultural inputs and small livestock. A central rice milling facility will also be established.

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COUNTRY	PROJECT TITLE	COST (US\$M)	PURPOSE
Vanuatu	Rural Sanitation	0.7	To promote improved health and living conditions through the provision of ventilated pit latrines for 15,000 families in rural villages.
Vietnam	Khe Tan Irrigation	3.5	To contribute to food self-sufficiency in the Dai Loc District by improving the water distribution and control network of an irrigation scheme covering 2,600 ha and constructing a pumping station to irrigate another 400 ha.
	CDF Programme Implementation Unit	0.5	To manage the implementation of the UNCDF programme through local private and public contractors, and further develop community participation in the identification and implementation of production-oriented and social infrastructure micro-projects.
Yemen	Potato Seed Production	3.6	To increase potato seed production and potato handling and storage facilities in Al Had, Daman and Mukeiras through provision of irrigation and well-deepening equipment, pumps and agricultural inputs to selected growers, and equipment and installation of workshops, storage sheds, and offices and staff quarters.
III. INTERREGIONAL			
INT/90/C01	Support to Micro-activities through the UNDP/NGO Partners in Development Programme	0.5	To support income-generating and social activities by channelling small "start-up money", working capital and related skill-training to eligible NGOs, local groups and micro-operators. The project will operate for one year on an experimental basis.
INT/90/C02	Grameen Seed Capital Fund	1.7	To initiate micro-enterprise credit programmes and transfer to other LDCs the experience of the Grameen Bank by providing 20 seed capital grants of \$50,000 each through the Grameen Trust in Bangladesh.

ANNEX 2

UNCDF ORGANIZATIONAL CHART





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**ANNEX 3**

**UNCDF PROJECT SELECTION CRITERIA**

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The main concern of UNCDF in identifying and selecting projects is to ensure the quality of projects for the optimal use of the resources made available to the Fund. To this effect, the following criteria are applied, with the required flexibility, in the selection of investment projects.<sup>3</sup>

**FORMAL CRITERIA**

- Government request and high development priority as expressed in the Government Plan
- Relevance to the UNDP Country Programme
- Small to medium size investment projects (\$200,000 to \$6,000,000)
- Project duration for disbursement purposes should not normally exceed three years.

**SUBSTANTIVE CRITERIA**

With strict adherence to its mandate, UNCDF-financed projects are oriented toward:

- meeting basic needs in areas such as food supply, health care, rural water supply and sanitation, and low-cost housing.
- developing productive sectors and income-generating activities, particularly in agriculture and small-scale industries.
- strengthening economic infrastructure such as feeder roads, rural electrification, crop storage and distribution facilities, irrigation systems and credit schemes.

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<sup>3</sup> These criteria exclude "technical assistance" type projects, such as institution-building, training, etc.

- All projects are designed to minimize external dependence and ensure sustainability. Execution of projects is usually entrusted to local institutions, with full participation by the communities who will benefit from them.

#### **INSTITUTIONAL CRITERIA**

- Sustainability/government execution capacity. In this context, whenever feasible, a careful review of the budget and staffing of the potential counterpart Ministry is to be done.
- Complementarity, environment of international aid. It is necessary to monitor appropriate linkages with UNDP-financed country programmes and other multilaterally or bilaterally funded programmes.
- Groundwork for future investment in linking pre-investment activities to larger scale investment by other institutions.
- Necessity to consolidate previous activities. The interrelationship between production development and social infrastructure development in a given region provide for a better focus of activities.
- Mechanisms relying on proven local competence of beneficiaries to participate in project activities. Special attention is given, whenever appropriate, to mechanisms enhancing the role and status of women.

#### **ECONOMIC CRITERIA**

- Contribution to productivity increase while taking into account market constraints. Investment activities should bring an economic return and stimulate, whenever possible, the micro and small enterprise of the informal sector. Profitability and cost effectiveness is sought through the consideration of various alternative approaches to ensure that production-oriented projects are financially viable.
- While implementing social infrastructure to meet basic needs, projects should address, at the design level, the issue of the cost recovery of the services provided. The Government and/or the concerned organization should be prepared and able to maintain and operate project outputs, and recurring costs should be met after the Fund's assistance terminates.
- Balance of payment factor. To help reduce the foreign exchange deficit of the recipient country, projects may promote, *inter alia*: (i) import substitution production, (ii) export-oriented production, (iii) repayment of loans in local currency, (iv) procurement of local equipment.
- State budget constraints. Projects take into account various modalities to reduce counterpart and recurrent costs.

- Existence of supportive economic policies, evidence of structural adjustment encouraging growth in local productivity.
- Participation/involvement of the private sector.

#### **OPPORTUNITY CRITERIA**

- Advanced stage of preparation of a project, including the availability of key inputs needed for effective implementation.

#### **ENVIRONMENT**

- All projects should be assessed in terms of environmental impact and have either directly beneficial or, at the least, neutral effects.





ANNEX 4

**UNCDF PIPELINE PROJECTS  
IN THE WATER SUPPLY AND SANITATION SECTOR  
FOR POSSIBLE CO-FINANCING**

Below is a list, by continent and country, of 21 projects valued at US\$ 53 million which have been identified during PPIMs for UNCDF financing, and which are now submitted for potential co-financing. For those interested in possible co-financing, more information can be obtained from UNCDF headquarters in New York.

Country	Project Title	Project Number	Cost (US\$ '000s)
AFRICA			
ANGOLA	Rural Water Supply and Sanitation	ANG/87/C05	4,697
CENTRAL AFRICA	Drinking Water Supply, Dekoa and Kaga-Bandoro	CAF/86/C04	1,220
COMOROS	Rural Water Supply	COI/88/C01	1,460
	Waste Disposal and Treatment, Moroni	COI/88/C04	460
EQUATORIAL GUINEA	Rural Water Supply	EQG/89/C03	2,500
ETHIOPIA	Ethiopian Water Works Construction Authority/Equipment Maintenance	ETH/89/C03	2,500
GUINEA BISSAU	Rural Water supply in Oio	GBS/90/C01	4,530
MALAWI	Borehole Rehabilitation	MLW/89/C01	5,000
MOZAMBIQUE	Rural Water Supply in the Province of Nampula	MOZ/89/C03	2,000
	Rural Water Supply in the Province of Zambezia	MOZ/89/C05	3,000
	Ilha de Mocambique Water Supply and Bridge Rehabilitation	MOZ/89/C06	3,800
SENEGAL	Water Supply to Women's Groups	SEN/87/C02	2,300
	Sanitation on the Outskirts of Dakar	SEN/87/C04	2,000

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SIERRA LEONE	Water Supply for Kenema Town	SIL/85/C01	2,000
SAO TOME	Water supply in San Antonio	STP/87/C01	900
TANZANIA	Mwamapuli Water Supply, Phase I	URT/87/C09	4,500
Africa Total			42,867
<b>ARAB STATES</b>			
DJIBOUTI	Water Supply in Day Forest	DJI/90/C01	2,000
YEMEN	Rural Water Supply	PDY/87/C03	4,000
Arab States Total			6,000
<b>ASIA &amp; THE PACIFIC</b>			
MYANMAR	Drinking Water	MYA/88/C05	1,500
SAMOA	Rural Water Supply	SAM/88/C01	700
Asia & The Pacific Total			2,200
<b>LATIN AMERICA &amp; THE CARIBBEAN</b>			
NICARAGUA	Rural Water Supply, Managua	NIC/87/C09	2,000
Latin America & The Caribbean Total			2,000
GRAND TOTAL			53,067

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**ANNEX 5**

**THE UNCDF PROJECT CYCLE**

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UNCDF works in full partnership with recipient countries through all stages of the project cycle. Projects are carried out in accordance with UNDP rules and regulations, as outlined in a basic agreement signed between UNCDF and a recipient country Government.

**IDENTIFICATION**

A large investment in time and effort is spent in this first, most critical, phase of the project cycle. Once the need for small-scale capital assistance has been established, consultations begin among Government authorities, target beneficiaries and multilateral and bilateral donors.

The identification of a project usually starts with a field mission (called a Planning and Project Identification Mission, or PPIM) by a team composed of UNCDF staff and technical experts. Visits to project sites are undertaken and activities outlined with a view to targeting complementary technical assistance from multilateral and bilateral donors as well as non-governmental organizations. Project proposals are also analyzed from the standpoint of feasibility and national priorities and the appropriateness of Government institutions in implementation. The encouragement of local participation, the capacity of a project to sustain itself once UNCDF assistance has ended, and the likelihood that project activities will be replicated, are also considered.

The mission concludes with a final meeting with Government planning authorities and the UNDP Resident Representative. The team's recommendations, including a list of project proposals, are provided to the Government. These recommendations become the basis for a report which is submitted to the Executive Secretary of UNCDF. A project review committee has the task of recommending which proposals should be further developed. Selected proposals are incorporated into a multi-year pipeline that forms the basis for future UNCDF activity in a country.

## FORMULATION

Project formulation begins once a proposal is entered into the country pipeline. Consultants are recruited for a formulation mission to compile a report. This covers the full range of institutional, technical, economic and financial conditions deemed necessary for a project's success. Consultants are also asked to elaborate on project design and to review alternatives for achieving project objectives. When a donor country/institution has expressed interest in co-financing a project with UNCDF, representatives from that country/institution may be invited to join the formulation team.

The draft formulation report, including an appraisal of proposed activities, is submitted to UNCDF for review. A final appraisal/agreement document is then drawn up by UNCDF staff.

## APPRAISAL

All projects presented to UNCDF for financing are subject to a series of appraisals. This includes an assessment of project design as well as technical, financial and economic viability.

If a project requires adjustments, all concerned parties are informed. If major changes are required due to unforeseen development in a recipient country, the project may be reformulated.

## APPROVAL

Final approval of UNCDF financing is granted by an action committee chaired by the UNDP Administrator. To qualify for funding, a project must:

- satisfy the requirements of UNCDF's mandate;
- give reasonable assurance of viability in terms of efficiency, effectiveness, significance and impact;
- have the explicit agreement of the Government and other concerned parties as to designated responsibilities.

Upon approval, a project agreement is signed between the recipient Government, the UNDP Resident Representative on behalf of UNCDF, and any co-operating or co-financing organizations.

## IMPLEMENTATION, MONITORING and REPORTING

UNCDF projects are generally executed by local institutions. However, if additional field support is needed, it can be provided by UNCDF through one of the specialized agencies of the UN system or bilateral sources. Arrangements for such support are flexible, and include services

such as procurement and delivery of UNCDF-financed equipment or short-term expertise. Each project is considered on a case-by-case basis. Project disbursements are made after the signing of a project document and after agreed upon prerequisites are met by the recipient Government. In the event of problems during this implementation phase due to circumstances beyond UNCDF's control, additional support may be provided. This can include problem-solving missions, technical back-stopping or monitoring of corrective actions. Continuous monitoring of projects during the implementation phase is considered critical.

The recipient Government reports regularly on its progress, as stipulated in the project agreement. The UNDP Resident Representative is responsible for monitoring day-to-day field operations.

UNCDF staff also carry out regular project reviews in conjunction with co-operating agencies or co-financing partners. These include monitoring of the physical execution of the project, costs, status of income-generating activities and tangible results. Project accounts are also audited.

## EVALUATION

Evaluations are the basis for assessing a project's impact. They are carried out both while a project is ongoing and after its completion, and may also be undertaken at the sectoral level. Evaluations are almost always conducted by an outside consultant, in close dialogue with concerned Government agencies. Original project objectives are reviewed and actual implementation appraised. A project's impact on target groups is also assessed. Evaluations serve three main purposes:

- to discover ways of increasing the efficiency, relevance and impact of UNCDF-financed projects;
- to improve future policy, planning, programming and implementation;
- to serve as a record of results achieved for presentation to UNCDF's governing body and interested donors.

**For further information, call:**

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